ONTARIO BUDGET 1981

THE HONOURABLE FRANK S. MILLER
TREASURER OF ONTARIO

ONTARIO BUDGET

1981

Presented by the Honourable Frank S. Miller,
Treasurer of Ontario
in the Legislative Assembly of Ontario
Tuesday, May 19, 1981

Office of the Budget
and Intergovernmental Finance

General enquiries regarding policy in the *Ontario Budget 1981* should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
Frost Building, Queen's Park
Toronto, Ontario M7A 1Y7
(416) 965-6869 (416) 965-8495
(416) 965-5738 (416) 965-8400
(416) 965-4748

Enquiries regarding specific measures in the *Ontario Budget 1981* should be directed to the addresses given in the Appendices to the Budget Statement.

Copies available free from the Ontario Government Bookstore, 880 Bay St., Toronto for personal shopping. Out-of-town customers write to Publications Services Section, 5th Floor, 880 Bay St., Toronto, Ontario, M7A 1N8. Telephone 965-6015. Toll free long distance 1-800-268-7540, in Northwestern Ontario 0-Zenith 67200.

Pour obtenir plus des renseignements sur la politique budgétaire de l'Ontario pour 1981 on peut s'adresser à la:

Direction des politiques d'imposition
Ministère du Trésor et de l'Économie
Édifice Frost, Queen's Park,
Toronto, Ontario M7A 1Y7
(416) 965-6869 (416) 965-8495
(416) 965-5738 (416) 965-8400
(416) 965-4748

On voudra bien faire parvenir aux adresses indiquées dans les Appendices du Discours du Budget, 1981 toute demande ayant trait aux mesures précises contenues dans le Budget.

Pour obtenir des copies gratuites du *Budget de l'Ontario 1981*, il suffit d'en faire la demande en personne à la Librairie du Gouvernement de l'Ontario, 880, rue Bay, Toronto, ou d'écrire à l'adresse suivante: Centre des publications, 5^{e} étage, 880, rue Bay, Toronto, Ontario, M7A 1N8. Téléphone: (416) 965-6015. Interurbains sans frais: 1-800-268-7540; dans le nord-ouest de l'Ontario: 0-Zenith 67200.

Ontario Budget 1981

Table of Contents

Budget Statement

Budget Papers

1981 Budget at a Glance

	1980-81	1981-82	Growth Rates
	($ million)		(%)
Gross Provincial Product	109,899	124,834	+13.6
Spending	17,284	19,400	+12.2
Revenue	16,484	18,403	+11.6
Cash Requirements	800	997	

1981 Budget Statement

Mr. Speaker:

It is a privilege to present tonight my third Budget, the 1981 Budget of the Government of Ontario—a Government which recently received a ringing endorsement by the people. Under the leadership of Premier William G. Davis, I am honoured once again to have the opportunity to contribute to the shaping of Ontario's future.

During the thirty-eight years of Progressive Conservative government in Ontario, this province has experienced great economic prosperity and social progress. The Province of Ontario is an enviable place to live, to work and to play. In no small measure, this healthy state of affairs reflects the moral fibre and sense of community responsibility of all the people of Ontario, and strong and sensitive Government.

This Government is committed to ensuring continued economic growth and development for Ontario and to providing quality public services for our citizens.

My Budget plan for this fiscal year clearly recognizes these fundamental priorities, while taking into account the need for an appropriate level of revenues. If the Province is to continue to provide the high level of services the people of Ontario have come to expect, if we are to have the flexibility to take appropriate actions to promote economic development and job creation, and if we must do so in an environment of considerable inflationary pressure, then it is vital that we have a more appropriate balance between revenue and expenditure.

This Budget sets out a realistic fiscal framework that will:

- encourage the private sector to grow and compete in the international market place;
- maintain the high level of services provided by the Province and allow for growth in priority areas; and,
- ensure a financial balance consistent with long-term growth and employment generation.

Strategy for Growth, Jobs and Price Stability

The Members will be aware that persistent high inflation and lower real economic growth are circumstances not unique to Ontario. They are circumstances characteristic of most major energy-consuming industrial economies which rely heavily on export markets for their prosperity. In my view, Ontario has weathered these difficult economic times well. The resources freed up by our policy of holding the growth in Provincial spending below the rate of expansion in the economy have been put to work by the private sector. In 1980, business investment in Ontario increased by 18.8 per cent; investment in the manufacturing sector alone increased by 34.5 per cent. For 1981, intentions call for a further increase in business investment of 17.1 per cent. As well, over the four-year period to 1981, the provincial economy will have created over 450,000 new jobs. The Government's economic programs have increased investment and created jobs.

Job Creation and Investment Growth in Ontario

	1978	1979	1980	Intentions 1981
Growth in Investment (per cent)				
All Business	9.0	16.4	18.8	17.1
Government Institutions	3.2	3.5	2.6	4.8
Housing	−1.3	−4.1	−12.2	9.6
All Sectors	5.6	9.8	10.3	14.4
Job Creation (000)	133	161	58	106

We are thus well positioned to take advantage of the economic opportunities of the 1980s. We are pursuing new directions in investment and entrepreneurship so that the economy remains healthy and continues to provide the stability and prosperity characteristic of Ontario. It is with concern, however, that I view the levels of inflation and interest rates we are currently facing. This Government is resolved to meet its responsibilities to limit the debilitating effects of high rates of inflation.

We have set an example with our own long-run strategy to reduce inflation.

- By encouraging investment, we are expanding capacity and rationalizing industry to make it more competitive in today's world trading environment.
- By encouraging the use of indigenous energy sources, we are rising to the challenge of inordinate increases in the world prices of energy.

- By facilitating labour mobility and training, we are adding to the supply of the skills our industries now need.
- By controlling the size of government, we are reducing the burden of the public sector, thus freeing up resources for private and personal use.

Unfortunately, our national government appears less committed to this objective. In my 1980 Budget and in subsequent statements, I emphasized the need for federal action. I continued voicing these concerns at meetings with my federal counterpart. Let me assure the Members that I will continue to urge the federal government to take its responsibilities for economic policy more seriously. Most importantly, the Premier has called upon the Prime Minister to convene a national conference of First Ministers on the issue of inflation and the economy. This will be a most critical forum in which to consider the national options in light of the causes and risks of inflation in Canada.

We need national policies to foster productivity improvements, to promote exports, to replace imports, to encourage energy substitution. We need a federal government with a controlled spending plan and a reasonable financial balance. We need to ensure that the uneven growth trends across Canada are not reinforced at the expense of the relatively slower growing provinces. And, perhaps above all, we need to ensure that as individuals, each and every one of us does not allow inflation to become a way of life. The fight against inflation, Mr. Speaker, is a fight that we can win. I am convinced that with effective, focused federal-provincial policies in this area, we can achieve substantial improvements.

I would now like to discuss the important components of the Government's economic and fiscal strategy.

Mini-Budget Actions Stimulate the Economy

The Members will recall that on November 13, 1980, I introduced a $260 million package of supplementary actions to stimulate the Ontario economy.

Foremost in the program were temporary retail sales tax cuts designed to impact selectively in specific sectors where economic performance was weak. The exemptions on purchases of major household appliances, new residential furniture and selected building materials, and a rebate of sales tax on purchases of new light trucks and vans, were all designed to boost sales and production in these important areas of our economy.

While it is too early to present a detailed analysis of the economic impact of these measures, I have already received encouraging signals of their beneficial effect. According to preliminary information,

Ontario's share of total Canadian sales of the exempted products has increased. This strong sales performance has important implications for both production and employment in Ontario. It is my view that this performance reflects the timely and appropriate actions taken by this Government.

Sales Tax Cuts Boost Ontario Sales
(per cent change)

	Ontario	Rest of Canada
Major Appliances (units)		
• Refrigerators	16.3	2.6
• Freezers	11.3	6.5
• Washers	6.7	−2.4
• Dryers	9.6	3.2
Light Trucks and Vans (units)	−16.0	−18.2
Furniture and Fixtures Shipments* (value in $ million)	22.6	9.7

Note: Review period is December 1980 to March 1981 (*February).

In addition, I am receiving positive comments from business that new jobs have been created and others retained in manufacturing, distribution and retailing. Retail inventories and operating costs are being reduced, thus improving liquidity. We can anticipate that the coming weeks will see further substantial gains as consumers take advantage of the measures before the expiry date of June 30, 1981.

There are significant delays between the placing of orders and the actual production and delivery of new furniture. Buyers of residential furniture will appreciate, Mr. Speaker, that I am granting a three-month extension of the delivery date to September 30, 1981, on purchases of residential furniture contracted for by the end of June. This extension will ensure that the intended benefit is provided to purchasers of residential furniture who are unable to take delivery within the prescribed time. The cost of this extension is $10 million.

The Board of Industrial Leadership and Development

Mr. Speaker, I would now like to discuss the Board of Industrial Leadership and Development established by the Premier last November to coordinate and implement Ontario's economic development strategy. This Committee of Cabinet now consists of nine Ministers working together to fulfill that task.The BILD development plan released in January detailed a wide range of potential development projects. Thirty-two projects were sufficiently developed that the details of their implementation could be announced during February and March. Others have been introduced in recent weeks. Within the current fiscal year, this Government expects to have a total of 50 BILD projects fully operational.

The response to the BILD development strategy has been tremendous. Individuals, companies, industrial associations and municipalities have come forward with ideas and money to invest. Ontario's initiatives have touched responsive chords in agriculture, mining, manufacturing, recreation—in fact, in all sectors. I am encouraged by this widespread interest and support.

We seek a cooperative partnership with Ottawa on development initiatives. The Premier presented a number of specific proposals to the Prime Minister. I have met with some of my federal counterparts, as have other BILD Ministers. We are not satisfied that Ottawa is moving quickly enough on the economic problems ahead of us. Their action is needed urgently.

As Chairman of the Board of Industrial Leadership and Development, I am pleased to report significant progress in the implementation of BILD projects in each of the six priority areas outlined in January. I would like to take this opportunity to highlight some of the BILD initiatives which are already well under way:

- *Electricity:* As announced in the BILD development plan, Hydro has confirmed that the completion timetable for the Darlington nuclear generation station has been accelerated to the maximum extent feasible. The new schedule will save Hydro an estimated $60 million in coal costs and will help to curb emissions that cause acid rain. A wide-ranging residential electrical services program to encourage Ontario homeowners to make their houses more energy efficient and switch in whole or part to electrical heat is being designed. During this fiscal year, legislation will be introduced to empower Ontario Hydro and the municipal electric utilities to permit homeowners to take full advantage of the electricity option, particularly heat pumps. As well, construction of the first stage of a steam supply system at the Bruce nuclear power development will commence this year to service the Bruce Energy Park. This project capitalizes on our past investment in nuclear power to move us into a new era of energy parks.
- *Transportation:* Construction and design work worth $25 million will take place this fiscal year on a long-term schedule of radial road improvements to accommodate increasingly heavy traffic in the Toronto-Niagara corridor. As announced in the BILD document, additional investments of $30 million have already been made in Ontario's Urban Transportation Development Corporation to create production facilities in Ontario for UTDC's high technology transit systems. The three main Ontario shipyards on the Great Lakes have responded very positively to the BILD initiative to improve drydock facilities. Their financial participation, plus Ontario's investment commitment, establishes the partnership for negotiating a firm deal with the Government of Canada.

- *Resources:* A full-scale fruit and vegetable storage program will commence this year to upgrade and expand the present storage, grading and packing capacity of Ontario's food growers. The tremendous early response to this initiative suggests that we shall see a large number of specific projects begun this year. BILD forestry initiatives, which will be brought to advanced stages of implementation, include the construction of forest seedling cultivation centres in Northern Ontario and the Ontario Institute for Biomass Research facility at Maple. A $10 million program of construction of custom gold sampling and milling facilities will commence this year in the gold mining areas of Ontario. A five-year program to establish drill core facilities across the province will also be initiated.
- *Technology:* Legislation has been introduced for the centrepiece of the Government's research and development initiatives—the IDEA Corporation. Its function will be to bridge the gap between public and private sector research activity, and to stimulate research and development in areas of critical importance to the Ontario economy, including auto parts technology, microelectronics, computer-aided design and manufacturing, and robotics. I am pleased to report that 25 companies have already signed up to participate in BILD's international intern program, which assists in the development of Ontario's international marketing skills. Major strides can be anticipated in strengthening research and development through Ontario's Buy Canadian policy and Office of Procurement Policy.
- *People:* Funds have been allocated to enable a significant expansion in the Government's Training in Business and Industry program and to provide a major increase in financial resources for the Colleges of Applied Arts and Technology in support of the purchase of new equipment. The commencement of another BILD initiative—Youth Employment Counselling Centres—has recently been announced.
- *Community:* As part of the Province's commitment to assist rural communities in securing industrial and commercial opportunities, the Government has already dedicated funds to the areas of Collingwood, Huntsville and Edwardsburgh for sewerage and water works. Draw down of BILD funds will also commence this year in support of the construction of new convention centres in Ottawa and Toronto. Finally, to foster local self-help initiatives, the Government is entertaining proposals from groups in small communities to aid in the establishment of community development corporations.

On the basis of the projects already considered, I estimate that the BILD initiatives committed for commencement this year will constitute more than $250 million in economic development investments. Of this

amount, the BILD central pool of funds will provide $150 million. The remainder will come from redirection of internal funds of Ministries and from participation by the private sector and other levels of government. Mr. Speaker, my BILD colleagues and I are convinced this partnership approach to underwriting the BILD program will assure its ultimate success.

Encouraging Small Business

BILD is setting major new directions for the provincial economy. The creation and expansion of Ontario small businesses will be vitally important to sustaining this momentum. People who take an idea and build it into a successful business are the backbone of the economy. Much of the new job creation in this province occurs in the small business sector. Risks, however, are high.

Ontario has undertaken several tax actions in recent years to encourage the formation and expansion of small businesses. Taxes on income and capital have been lowered and investment tax credits provided to increase internally generated funds. Access to outside risk capital and managerial expertise has also been improved by the creation of Small Business Development Corporations.

SBDCs are a growing success. In the space of only two years, over 140 SBDCs have been registered in the province. Already, they have invested $40 million in small businesses. This substantial new capital has been used by small businesses to start up production, to increase working capital and to reduce the burden of interest costs. In turn, this activity has increased employment and encouraged others to increase their financial interest in small businesses. Funds have been invested all over Ontario in enterprises engaged in a wide range of manufacturing, processing and tourist activities.

I now propose certain improvements to the SBDC program.

First, to encourage more individuals to become involved in the program and to stimulate the development of widely-held SBDCs, the maximum equity capital will be raised to $10 million from $5 million for public SBDCs. However, an SBDC will not be able to invest more than $5 million of its equity capital in any eligible small business. Second, the definition of eligible tourist activities will be expanded to include recreational facilities and certain other attractions. In addition, I am proposing certain other amendments which are outlined in Appendix C to this Statement.

The SBDC program, and the Ontario Mineral Exploration Program introduced last year, have helped to provide exploration funds for potential mineral producers and expansion funds for small businesses. However, I am still concerned that the need for development funds

is not being met in the public market. I am hopeful that with the cooperation of the Toronto Stock Exchange and the Ontario Securities Commission a system for a new Venture Capital Listing on the TSE will be developed. I was encouraged by recent proposals made by the TSE in this regard, and I would support initiatives to assist corporations in the early stages of development to gain greater access to funds from the public market.

Finally, Mr. Speaker, to further assist Ontario's small businesses, I would like to announce that we will parallel the federal government's tax treatment of Small Business Development Bonds. I believe this is a useful way in which to help small business cope with today's high interest rates.

Maintaining an Attractive Investment Climate

It is vitally important to the success of our economic development initiatives that Ontario maintain an attractive investment climate.

I am not making an earth-shaking revelation when I say that Ontario must compete for industry if our resources are to be effectively utilized, and that we need to attract foreign capital to ensure our investment requirements are fully met. There can be no doubt that our infrastructure and services easily pass the test of world standards. But it is just as important to maintain competitive cost and taxation structures.

Tax competition appears to be increasing, particularly vis-à-vis the United States and some of our sister provinces. Canada's corporate taxation provisions and the indexing of the personal income tax compare favourably with measures proposed for the United States. I am confident that Ontario will remain competitive on the tax front, but I will continue to carefully follow tax developments in competing jurisdictions.

In the Canadian context, however, I am concerned about the potentially destructive implications of excessive tax competition among the provinces. This is a serious matter to which federal and provincial Finance Ministers must devote their early attention. A certain measure of harmony in provincial tax structures is important. Ontario's concerns in this regard are outlined in Budget Paper B to which I refer the Members.

Quality Services for People

Let me turn from economic growth to the Government's other major priority—that of providing quality and accessible services for the people. Economic growth and social progress go hand in hand. Ontario has well-developed transportation systems, modern services such as sewerage and water facilities, good housing, one of the best health care systems in the world, and excellent educational facilities and programs. As well, the elderly receive substantial recognition for their service to society.

For this fiscal year, the Government has set spending at $19.4 billion. This represents an increase of 12.2 per cent over the previous fiscal year. Although somewhat greater than increases in recent years, it is a realistic allocation in light of the sensitivity of government spending to inflation. It continues to reflect the Government's commitment to providing a high level of services without disturbing the balance between private and public sector growth.

Within this allocation, health care remains a priority. Over the past six years, health spending has increased from 27.2 per cent of our total budget to 28.7 per cent. For 1981-82, the Province has provided a sizeable increase in the funding for basic services. Provision has been made for a further expansion of chronic home care and for new extended care beds. As well, a telemedicine service will be introduced and a start made on the Northern air ambulance service. Also, the provision for computerized axial tomography scanners will be expanded, and perinatal service improved. Continued expansion of hospital chronic care facilities will also take place.

Health Services are a Priority
($ million)

Year	Health Budget	Total Spending	Per Cent of Total Spending
1976-77	3,387	12,467	27.2
1977-78	3,664	13,544	27.1
1978-79	3,966	14,413	27.5
1979-80	4,272	15,830	27.0
1980-81 (Interim)	4,897	17,284	28.3
1981-82 (Estimates)	5,567	19,400	28.7

The Province's commitment to disabled persons will be further reinforced in this the International Year of Disabled Persons. Funding of major programs for the disabled will rise from $499 million in 1980-81 to $593 million this year. This represents an increase of

$94 million, or 18.8 per cent, including $28 million for the developmentally handicapped and an equivalent amount for special education.

Major Programs for the Handicapped
($ million)

	1980-81	1981-82
Transportation for the handicapped	3	5
Developmentally handicapped	268	296
Community mental health facilities		
— adults	14	16
— children	62	73
GAINS for the disabled	126	129
Vocational rehabilitation	18	20
Special education	8	36
IYDP new initiatives	—	12
Wintario grants for access to facilities	—	6
Major Programs Total	499	593

We are continuing our focus on creating youth employment and providing for training opportunities. In 1981-82, expenditures on job development will continue to be a priority. This area will be allocated approximately $185 million.

Other initiatives contained in the 1981 expenditure plan are:

- provision for new subsidized day care nurseries;
- a renovation and expansion program for homes for the aged, which is expected to cost $40 million over five years on a shared-cost basis with municipalities;
- provision of $3.3 million for bullet-proof vests for the Ontario Provincial Police and municipal police forces;
- assistance towards construction of 15,000 new rental units under the Ontario Rental Construction Loan Program. The interest-free second mortgage loans to developers of up to $4,200 per unit will require an estimated outlay of $63 million over five years;
- subsidizing maintenance of municipal drains associated with agricultural drainage, at a cost of $2 million; and,
- the opening of a new agricultural college for Franco-Ontarian farmers in 1981-82 to provide agricultural instruction in the French language.

Mr. Speaker, I am confident the 1981-82 expenditure plan, developed in cooperation with the Chairman of Management Board and my other Cabinet colleagues, is both appropriate and realistic. Important new initiatives have been taken on a number of fronts. The planned

expenditure growth rate recognizes the implications of inflation on costs, but ensures that Provincial spending does not fuel inflation. And allocations among programs reflect the shifting priorities and meet the needs of our society.

Provincial-Local Finance

The Members will be aware of the considerable support we provide to local governments. For example, last year the Government provided a generous increase of almost 12 per cent in assistance to the local sector with the result that mill rates increased by only 7 per cent on average. As a result, property tax increases were held considerably below the rate of inflation.

Earlier this year, the Government announced details of 1981 local government transfers. Support for 1981 will be in excess of $4.7 billion, an increase of 10.6 per cent over last year. I fully realize that inflationary forces have made it difficult for local governments to contain expenditure growth. Nevertheless, I am confident they will have reviewed their expenditure plans judiciously and ensured that increases in local tax rates will remain below the rate of inflation and growth in household income. In other words, the average real burden of property taxes should not rise, and in fact will remain well below the burden in the early seventies.

Ontario's Support to Local Government, 1980 and 1981
($ million)

	Interim 1980*	Estimated 1981	Increase
			(%)
Payments to School Boards (including capital grants)	2,267	2,502	10.4
Payments to Municipalities and Agencies	2,021	2,240	10.8
Total Payments	4,288	4,742	10.6

*Adjusted for prepayments.

I would like to remind the Members that the Government's gradual approach to the reform of the local taxation system is working well and is producing meaningful progress without unacceptable tax shifts. Two hundred and forty-six municipalities and communities have already been reassessed at their own request under Section 86 of the Assessment Act, and a further 39 have been reassessed at full market value.

I am proposing tonight a further step in the Government's overall reform of property taxation.

This reform relates to farms and managed forests. In my opinion, farm residences should be treated the same way as other residences and appropriate recognition should be given to the contribution made to our economy by farm land and buildings on the one hand and by managed forests on the other. Accordingly, I propose the following approach.

- Full exemption would be provided from property taxation for defined farm land and buildings and for managed forests.
- Farm and managed forest tax rebate programs would be eliminated. I might add that the federal government will begin to tax these rebates this year.
- Farm residences would be treated the same way as other single residences for property tax purposes.
- Municipalities and school boards would be compensated for taxes foregone through exemptions.

There are a number of significant issues which will have to be resolved before this approach can be implemented. I intend in the very near future to discuss the proposal in detail with interested parties, including the farming community and its representatives, foresters and local governments. Provided any concerns brought forward in the discussions can be effectively met, I anticipate that the new property tax system for farms and managed forests can be in place by as early as the 1982 taxation year.

The Government's approach to determining an appropriate property tax burden is an important consideration for farmers. Let there be no doubt that this Government fully recognizes the importance of the farm sector to the Ontario economy and the substantial contribution of the farming community. In this context, I and my colleague, the Minister of Agriculture and Food, are examining the structural problems of the agricultural industry with its high capital requirements and cyclical incomes, and we will take what steps are necessary to ensure our farm sector remains prosperous.

Federal-Provincial Matters

I would now like to discuss federal-provincial financial matters and pension reform.

Federal Transfers

As the Members will recall, the federal Minister of Finance has given notice of his intention to seek significant savings from the renegotiation of major federal-provincial fiscal arrangements. This approach is part of a broad strategy to reduce the chronic federal deficit.

Mr. Speaker, in six short years, the federal government has more than doubled its budgetary deficit to some $14 billion, seriously damaging economic confidence in the process. I obviously support Ottawa's belated efforts to bring its budget under control. However, I hasten to add that for a number of valid reasons we believe large-scale retrenchment in fiscal transfers to the provinces is both unjustified and unwise.

In the first place, federal transfers to the provinces are not the root cause of Ottawa's fiscal difficulties. The federal government withdrew the very large Revenue Guarantee payments to the provinces in 1977, scaled down other transfers in the 1978 restraint program, and in 1980 terminated the $250 million Community Services Contribution Program. Second, through its energy policy, Ottawa has already much enhanced its current revenue position and prospects, while taking the fiscal sting out of its Oil Import Compensation Program. Third, significant reductions in the major federal-provincial transfers would further heighten the already serious and rapidly growing fiscal disparities among the provinces.

It is apparent the federal government is giving serious consideration to fundamental alterations in Established Programs Financing, under which provinces receive assistance towards the costs of health programs and post-secondary education. This fiscal agreement took many years of negotiation and became a milestone hailed by both orders of government. Experience to date underscores that EPF has operated much as expected and is fundamentally sound. It was put in place as a long-term arrangement and should be viewed as such.

In my 1980 Budget Statement, I drew the attention of the Members to the fact that one of the cornerstones of our federation, the federal revenue equalization program, is in need of major reform. This important program's reputation suffered considerably when its formula produced large entitlements to Ontario. Only through special legislation could Ottawa avoid paying over $1.3 billion to this Province.

Ontario is greatly concerned about the future of the equalization program. This Government cannot accept the continuation of the

program in its current form, nor can we accept Ontario's exclusion from entitlements without a fundamental solution to the problem of regional fiscal disparities. These disparities are so large that normally healthy interprovincial competition could deteriorate and lead to destructive protectionism and loss of national economic strength.

I am tabling today Budget Paper B on the renegotiation of the federal-provincial fiscal arrangements. This paper, together with last year's Budget Paper on equalization and fiscal disparities, presents a comprehensive Ontario perspective on this important subject.

Since 1975 this Province has urged public sector restraint in Canada. We have acted accordingly in our own fiscal planning over this period and substantially trimmed down spending growth rates and the size of our bureaucracy. I would therefore like to emphasize that federal transfer cuts would in all probability necessitate increased Provincial taxes to maintain service levels.

Pension Reform

Mr. Speaker, another federal-provincial matter of considerable significance to Ontario is pension reform.

In April, the federal government convened a National Pensions Conference to explore ways of reforming the pension system. The Members will be aware that, although this conference was called by Ottawa, the jurisdiction over pensions is primarily provincial. The Canada Pension Plan, which is enacted and administered by the federal government, recognizes this important fact. No change to the terms of the Canada Pension Plan can be made without the consent of two-thirds of the provinces representing two-thirds of the population of Canada.

Several observations emerge from the National Pensions Conference. First, it is clear that the federal government regards pension reform as a high priority. Second, unless effective improvements can be made to private sector arrangements there will be strong pressure to expand the Canada Pension Plan. Third, it is imperative there be a coordinated effort by the provinces to develop a uniform approach to pension reform.

Ontario has been a leader in the pension field. This Province was the first to enact pension legislation when it introduced the Pension Benefits Act in 1965. In 1977, the Government established the Royal Commission on the Status of Pensions in Ontario whose ten-volume report I released in February. The report provides an exhaustive analysis of the problems currently existing in the pension system and sets out possible responses in its 163 recommendations.

Although it will be neither possible nor desirable to implement all of the recommendations, the findings of the Royal Commission will form

the foundation for pension reform in Ontario. There is a fundamental premise in the report which is heartily endorsed by this Government, and I quote:

> "There is general agreement that retirement is an individual matter and that ultimately the individual is responsible for his or her own retirement... Individual needs and desires require flexibility which cannot be given by group programs or universal social programs."

In dealing with the reform questions, there are six guiding principles which will govern the direction of our reforms.

First, the principal vehicle for reform should be the private sector. Only the flexibility of the private sector can meet individual needs and desires.

Second, reform must recognize the special needs of the existing lower income elderly. I do not believe the private sector will be able to solve this particular problem. Therefore, governments, both federal and provincial, must be prepared to take the initiative in this area.

Third, reforms in the private sector should reflect the perspective of the majority of Canadians that pensions are deferred wages. This means we will have to improve vesting, have a fairer allocation of employer contributions and a system to provide for portability.

Fourth, reform can be effective only if there is coordination of pension legislation across Canada. We will be encouraging the provinces to work together in developing pension reform plans to ensure the necessary measure of uniformity.

Fifth, we must take into account the special needs of women. For example, many women are excluded from participation in pension plans because they are employed on a part-time basis.

Finally — and this point is of great importance — the costs of reform must be within the ability of government, the taxpayer and the private sector to carry.

Our actions with respect to pension reform must recognize that the most important foundation for a secure pension system is a healthy economy. A Select Committee of the Legislature will be appointed to assist the Government in its deliberations on pension reform.

Fiscal Plan

Mr. Speaker, this leads me to the fiscal plan for 1981-82. As I have already indicated, expenditures will grow by 12.2 per cent. This rate of increase is below the forecast expansion of the economy of 13.6 per cent. Consequently, Provincial spending will decline relative to GPP for the sixth year in a row, to 15.5 per cent from the high of 17.5 per cent reached in 1975.

As discussed in Budget Paper A, the ability of the Province's revenue structure to generate revenues has been significantly reduced in recent years. However, expenditures are demonstrating considerable sensitivity to inflation. In the absence of tax increases, expenditures of $19.4 billion would push the deficit to $1.6 billion. This is unacceptable. After careful consideration, I have decided it is necessary to raise $603 million in additional revenues to limit the deficit increase. As a result, the deficit will be $997 million in 1981-82.

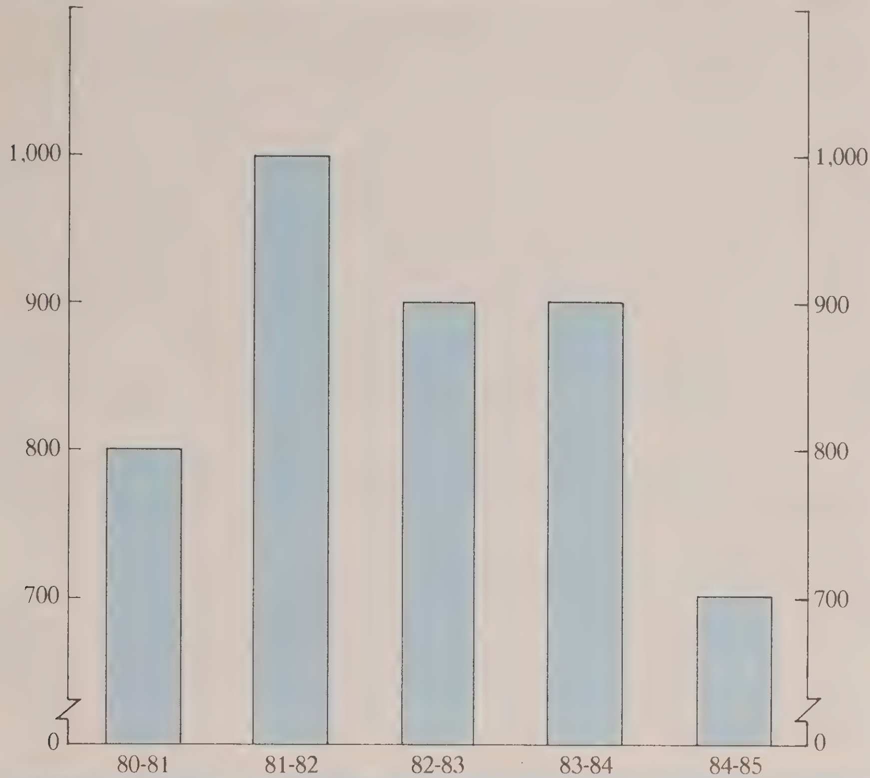
Ontario's 1981-82 Fiscal Plan
($ million)

	Interim 1980-81	Estimated 1981-82	Year to Year Change
Revenues	16,484	18,403	+1,919
Expenditures	17,284	19,400	+2,116
Net Cash Requirements	800	997	+197
Net Non-Public Borrowing	1,112	1,248	+136
Financing Flexibility	312	251	
Net Public Borrowing	−143	−61	
Increase in Liquid Reserves	169	190	

This level of net cash requirements is well within the capacity of the Government to finance from non-public borrowing sources. In keeping with our commitment to reduce our reliance on borrowed funds in order to free up capital for private borrowers, for the second year in a row the Province will make available $500 million from the Canada Pension Plan to Ontario Hydro. This long-term financing will be of considerable value to the Corporation in a time of crowded capital markets. It represents a sound investment of CPP funds in Ontario's energy future.

Our commitment to balance the budget remains firm, but progress towards this goal must recognize the needs of the economy and of our people. As I have mentioned, the stimulatory actions in my Mini-Budget will cost over $260 million. Over the medium term, I plan for a steady reduction in the level of net cash requirements, and the modest deficit levels projected keep us well within range of our objective. Budget Paper C provides details of the medium-term fiscal projections.

Deficit Reduction Plan
($ million)



Tax Actions

As I mentioned before, the Province's revenue needs are not being adequately met by our current tax structure. The inadequacy of revenues reflects, to a considerable degree, the many tax reductions implemented in recent years. I intend to review the substantial list of retail sales tax exemptions currently available, as well as possible expansions in the base. I anticipate the results of this review will be indicated in next year's Budget.

Consistent with this approach, I am proposing tonight only one change to the Retail Sales Tax Act, that is to exempt kits for converting licensed vehicles to utilize alternative fuels. This exemption will reinforce the already successful tax treatment which exists for new cars. This action will cost about $1 million in 1981-82.

We are also reviewing Crown timber charges. The Province's costs of maintaining and protecting forests have escalated sharply, and it is my intention to determine the extent to which these increased costs can be shared with the industry.

It would be appropriate at this time for me to report briefly on our review of tax incentives for research and development. R & D spending in Canada is significantly below that required to meet the federal target of 1.5 per cent of GNP by 1985. Inadequate R & D is a Canadian problem and requires a program which is national in scope. I would urge the federal government to act quickly to ensure Canada's needs are met.

We have examined several options for stimulating R & D spending in this province, to encourage both new Canadian investment and greater activity by the multi-national corporations. We already have in place generous tax incentives. It is apparent that substantial increases in tax subsidies would be necessary to alter current R & D investment behaviour. Ontario simply cannot afford such measures and I have rejected the idea of granting further Provincial tax incentives. Instead, I will ensure that BILD activities encourage research and development in Ontario to the maximum extent possible.

Mr. Speaker, I will now propose a number of necessary revenue-raising measures.

Personal Income Taxation

The personal income tax is our most progressive levy, and is essential to the overall fairness of our tax system. However, over the past several years the revenue growth of this important tax has significantly declined.

I am proposing that Ontario's rate of personal income tax be increased from 44 per cent of basic federal tax to 48 per cent. This increase will take effect with an increase in withholding taxes from July 1st onward, so that the effective tax rate for the 1981 taxation year will be 46 per cent. For the typical wage earner, the increase in withholdings amounts to less than 3 per cent, and will be more than offset by the impact of indexing in the new year. For example, the tax increase for a single taxpayer at $20,000 of gross income will amount to $2.25 per week. However, assuming the same level of income for the taxpayer in 1982, and a rate of inflation indexing of 12 per cent, this individual's tax burden will decline by $4.56 per week.

Mr. Speaker, after this change, we will continue to have the lowest income tax burden in Eastern Canada and the third lowest provincial income tax rate in the nation.

The Members will be aware Ontario already has an income tax reduction program which eliminates Ontario tax for over 400,000 lower income Ontarians. That program will be enriched for the 1981 taxation year to reduce tax burdens for another 60,000 Ontario taxpayers with taxable incomes below $2,058. This enrichment, which smoothes the notch in Ontario's personal income tax, will bring the total benefits under the Ontario tax reduction program to $20 million.

Impact of PIT Increase on Weekly Tax Withholdings
(dollars)

Annual Income	Single			Married[1]		
	Jan.-June 1981	July-Dec. 1981	1982[2]	Jan.-June 1981	July-Dec. 1981	1982[2]
10,000	22.35	+0.73	−2.53	16.61	+0.57	−3.19
15,000	47.53	+1.42	−3.31	40.98	+1.23	−3.53
20,000	75.92	+2.25	−4.56	68.90	+2.04	−4.62
25,000	107.21	+3.17	−5.90	91.57	+2.95	−6.36
30,000	142.63	+4.22	−8.27	134.07	+3.97	−9.04
40,000	228.72	+6.62	−13.06	218.30	+6.32	−14.32
50,000	317.09	+9.08	−13.06	306.67	+8.78	−14.32
60,000	414.51	+11.78	−19.99	402.77	+11.46	−21.42
70,000	513.93	+14.54	−19.99	502.19	+14.22	−21.42

Note: Assuming standard deductions and exemptions, and ignoring federal child tax credit.

[1]Principal taxfilers with two children.

[2]Assumes indexing at 12%. Represents the change from December 1981.

On balance, these personal income tax measures will yield $235 million in increased revenues this fiscal year and $450 million on a full year basis. Full details of the tax increase and enriched Ontario tax reduction are contained in the Tax Appendix.

OHIP Premiums

As I am sure the Members will agree, Ontario can be justifiably proud of having one of the finest health care systems in the world. A wide range of health services is available to all Ontarians, regardless of their financial circumstances or state of health. This Government remains firm in its resolve to maintain this quality of care for the benefit of all residents of this province.

The Government has been successful during the past few years in achieving a high degree of cost efficiency in the health sector. In the early 1970s, the cost of providing insured health services escalated at an average annual rate of 15 per cent. In the three years after 1976, this rate of increase was held to an average of 8 per cent. More recently, upward cost pressures have emerged once again.

The funds for financing health care come from general revenues, including OHIP premiums. The ratio of premiums to health spending has continually fallen over time because of low natural growth in the premium base. In 1979-80, premiums contributed almost 29 per cent to the cost of insured health services, but this proportion would decline to less than 23 per cent this fiscal year without an adjustment.

Therefore, effective in respect of payments for coverage beginning October 1, premiums will be increased by $3 per month for single

persons and $6 per month for families. The resulting new monthly premium levels become $23 and $46 for single persons and families, respectively. This measure, which increases premium revenue by $120 million this year, represents an increase in premium rates of 15 per cent since 1979, which is below the increase in the cost of health care services over the same period.

I would like to assure the Members that many Ontarians continue to benefit from the present system of premium assistance and exemptions. Moreover, this system will be enriched to ensure that the increase in premiums will not impose any financial burden on those least able to afford them. Details of this enrichment are provided in Appendix B. Individuals with annual gross incomes of up to $8,200, and families of four with gross incomes of up to $14,000, will now be eligible for assistance. Also, pensioners and recipients of social assistance will continue to pay no premiums. As a result, some 1.7 million Ontarians will be sheltered from all or part of the increase.

Mr. Speaker, some Members think that premiums are not an appropriate health financing vehicle. Let me say that I intend to explore in depth other financing options, such as a payroll tax. But I wish to emphasize there are significant implications which could still justify continuation of premium financing. I invite and welcome comment on this matter during the coming year.

Revenues from Fuel, Tobacco and Beverage Alcohol

I spoke earlier about my general concern with the diminished responsiveness of the revenue system. Consequently, I am proposing that the tax rates on gasoline, diesel fuel, railway diesel fuel, aviation fuel, on cigarettes and cut tobacco, and on domestic beer be converted from their current volume basis to an ad valorem basis.

At the same time, I am proposing the following specific tax increases.

- First, that the new ad valorem tax rate on gasoline be set to incorporate an average increase of about 1 cent per litre and the new tax rate on diesel fuel be set to impose a 1.1 cent per litre increase. There will be no specific increase for railway diesel fuel and aviation fuel. These changes will be effective midnight tonight, and, on the new ad valorem basis, will generate $135 million in this fiscal year. Furthermore, Mr. Speaker, as of April 1, 1982, the Province will introduce a fuel colouration system for non-taxable middle distillate fuels. This measure is aimed at preventing tax evasion. Similar programs are already in place in the other provinces.
- Second, that the new ad valorem tax rate on cigarettes be set to incorporate an increase of just over 5 cents per pack of twenty. The tax on cut tobacco will also be increased. This change will

be effective midnight tonight and, on the new ad valorem basis, will yield an additional $50 million this fiscal year.

- Third, that a five point increase in the mark-ups be applied to domestic and imported spirits, while a decrease in the mark-up on domestic brandy from 75 per cent to 58 per cent be introduced. The mark-up increases, effective July 20, 1981, amount to 20-25 cents per 25 ounce bottle of spirits sold at retail. In total, an additional $16 million will be generated in 1981-82.
- Fourth, that the new ad valorem tax rate on domestic beer be 20 per cent. This will increase beer prices by about 45 cents per case of 24 and will take effect on June 1, 1981. The revenue gain from this proposal will be $22 million in 1981-82.

A number of other minor changes to the revenue system are also proposed, with a view to raising revenues, improving the working of the tax system and ensuring uniformity in tax bases. I would direct the Members to the Tax Appendix for details on these changes. On balance, these measures will add another $26 million to Ontario's revenues.

Mr. Speaker, our corporations will have to absorb a share of the burden of the tax increases on consumption items as well as OHIP premiums. I have decided to leave the corporate income tax and capital tax rates unchanged in view of the importance I attach to maintaining an attractive investment climate. I should note that we have in recent years imposed increases in taxes on large corporations. The capital tax was doubled on all corporations in 1977, and the income tax rate increased by one point, or almost 10 per cent, in 1978. A further capital tax increase of 33 and one-third per cent was imposed on banks in 1979. At the same time, the income tax rate was raised by an additional one point on most of our large corporations, making a total income tax increase of 17 per cent over the two-year period for these corporations. I have already indicated the intense competitive environment in which we must operate and the direction of tax policy in other jurisdictions. The inescapable conclusion I have reached is that direct taxes on corporations should not be increased this year.

The tax actions I have proposed will generate an additional $603 million in 1981-82. They are sustainable in light of the expected

Summary of Tax Actions
($ million)

Personal Income Tax	235
OHIP Premiums	119
Fuels Taxes	135
Tobacco	50
Alcohol	38
Other	26
Total	603

economic performance and will allow Ontario to remain competitive on the tax front. My colleague, the Minister of Revenue, will be tabling legislation tonight to effect these tax changes.

Home Heating Credit

Our improved revenue performance will enable us to continue to meet the needs of the people. The Members will recall my concern, expressed in the Mini-Budget, with the impact of sharp increases in home heating costs on lower income Ontarians. It will be a hardship for those with limited resources to adjust their budgets quickly to meet these cost increases. Consequently, it remains my conviction that a temporary, geared-to-income assistance program for home heating cost increases would be appropriate.

The impact of home heating cost increases on low-income people all across Canada should be a matter of national concern. I have taken this view directly to the Minister of Finance, presenting a set of options to him in December. In the absence of federal action, I will provide heating cost assistance for residents of this province. Consequently, I am reviewing the options available and will immediately initiate discussions with the federal government on the administration of the personal income tax system in anticipation of change. Home heating cost increases over the winter of 1981-82 would be the initial target of the program.

Economic Outlook

Mr. Speaker, I now turn to the economic outlook for Ontario.

There are a number of potentially favourable developments. Tax cuts and increases in defence spending in the United States should give renewed impetus to the growth in demand for Ontario's exports. President Reagan's program is clearly designed to promote economic growth and it will have positive spillover benefits for our economy. The possibility of an easing of international oil prices resulting from a growing glut of oil on the world market will also provide welcome relief. This outlook could be even further improved by the commencement of the energy mega-projects. The value of these projects to the Ontario and Canadian economies is quite clear, and I would urge that the negotiations now under way between Ottawa and the producing provinces recognize the importance of the prompt commencement of these projects.

I am confident, Mr. Speaker, about the ability of the Ontario economy to rebound to higher levels of growth and, with the Government's help, fight off inflation over the medium term. It is my view that we can expect a further improvement in our economic performance.

My confidence reflects the economic forecast for 1981 which calls for a significant recovery from last year's performance. In 1980, overall output declined by 0.2 per cent. Nonetheless, our job creation was 58,000, very close to my 1980 Budget forecast of 59,000. This year, I am forecasting a real growth rate for Gross Provincial Product of 2.4 per cent, and the creation of 106,000 new jobs. As a result, the unemployment rate will drop to 6.6 per cent from 6.9 per cent last year. The economic recovery in Ontario will be balanced across all sectors.

Conclusion

In conclusion, this Budget serves to maintain a required fiscal balance and:

- it lays out initiatives to foster economic growth and thereby reduce inflation;
- it creates jobs;
- it continues support for small business and the farming community;
- it maintains a competitive tax and investment climate;
- it reduces the size of government to the economy;
- it increases the level of funding for public services;
- it provides new assistance for disabled persons;
- it promises relief from sharp increases in home heating costs for lower income people;
- and, Mr. Speaker, it maintains the Province's commitment to balance the budget.

The Ontario Economy, 1979 through 1981

	1979	1980	1981	79/78	80/79	81/80
		($ billion)			(per cent)	
Total Output						
Gross Provincial Product	99.6	109.9	124.8	12.0	10.3	13.6
GPP (constant 1971 dollars)	49.5	49.4	50.6	1.5	−0.2	2.4
Investment						
Machinery and Equipment	7.9	9.4	11.0	18.4	19.3	17.1
Non-Residential Construction	5.7	6.4	7.3	8.7	12.0	14.6
Residential Construction	3.5	3.1	3.4	−4.1	−12.2	10.1
Other Components of Demand						
Housing Starts—Units (000)	56.9	40.1	46.5	—	—	—
Retail Sales	27.5	29.6	33.4	9.2	7.8	12.6
Exports	34.3	39.2	44.3	17.2	14.3	12.8
Imports	28.2	31.4	35.5	17.9	11.2	12.9
Income						
Personal Income	81.7	90.1	101.7	10.8	10.3	13.0
Corporate Profits (before taxes)	12.4	13.5	14.7	40.4	8.7	9.0
Prices						
Consumer Price Index	—	—	—	9.1	10.1	12.1
Jobs						
Labour Force (000)	4,289	4,366	4,467	3.4	1.8	2.3
Employment (000)	4,008	4,066	4,172	4.2	1.4	2.6
Unemployment Rate (% of labour force)	6.5	6.9	6.6	—	—	—

Source: Ontario Treasury.

Appendix A

Details of Tax Changes

The purpose of this appendix is to provide a more detailed description of the tax changes outlined in the Budget Statement. This is a concise summary only, and the reader is advised to consult the statutes for exact information.

The Income Tax Act

Rate Increase

The rate of Ontario personal income tax levied under the Income Tax Act is increased from 44 per cent of Basic Federal Tax to:

- 46 per cent of Basic Federal Tax for the full 1981 taxation year, reflected by an increase in withholdings at source to 48 per cent of Basic Federal Tax as of July 1, 1981; and,
- 48 per cent of Basic Federal Tax for the 1982 taxation year.

Ontario Tax Reduction Enrichment

The Ontario Tax Reduction will be enriched so that, for the 1981 taxation year:

- individuals with taxable income of $1,874 or less will pay no Ontario tax; and,
- individuals with taxable income of between $1,874 and $2,058 will have Ontario tax reduced by an amount equal to

$$\left(\frac{\$2{,}058 - \textit{Taxable Income}}{2}\right)$$

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y7
(416) 965-5738

Ontario Tax Credit System and Ontario Pensioners Property Tax Assistance Grants

Tax Credits

The following amendments will be made to the Income Tax Act and Regulations:

- Individuals who reside in properties exempt from property taxation, excluding prescribed student residences, will not be eligible for Property Tax Credits.
- Estates will no longer be eligible for any portion of Property Tax Credits or Sales Tax Credits. A surviving spouse will use the occupancy cost for the full year in the calculation of the Property Tax Credit.
- Individuals who have emigrated from Canada before December 31 in any year will no longer be eligible for Ontario Tax Credits for that year.
- Persons admitted to Canada with Student Authorization to attend an educational institution in Ontario will no longer qualify for Ontario Tax Credits.
- The definition of property taxation for purposes of occupancy cost will no longer include charges levied by a municipality for local improvements financed through the Ministry of the Environment.

Effective: with respect to Ontario Tax Credits for the 1981 taxation year.

Ontario Pensioners Property Tax Assistance Grants

The following amendment will be made to the Ontario Pensioners Property Tax Assistance Act and Regulations:

- Estates will no longer be eligible for any portion of Ontario Pensioners Property Tax Assistance Grants. Surviving spouses 65 years of age and over will qualify for these grants based on the occupancy cost for the whole year. Where the deceased had already received an Ontario Pensioners Property Tax Assistance Grant, this amount will be deducted from the claim of the surviving spouse. Surviving spouses under 65 years of age will use the occupancy cost incurred for the full year in calculating Ontario Property Tax Credits.

Effective: May 20, 1981.

All enquiries regarding Ontario Tax Credit and Ontario Tax Grant changes should be directed to:

Guaranteed Income and Tax Credit Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 2B3

In Metro Toronto — dial 965-8470

In area code 807 — ask the Operator for
Zenith 8-2000

All other areas — dial 1-800-268-7121

The Retail Sales Tax Act

Exemption for Energy Conservation Materials and Equipment

The exemptions for energy conservation materials and equipment under the Act will be expanded to include conversion kits purchased to transform a vehicle, required to be licensed under the Highway Traffic Act, to be powered exclusively by electrical energy, hydrogen, propane, natural gas, manufactured gas or alcohol.

Effective: May 20, 1981.

All enquiries regarding this change should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1X9

or

the nearest Retail Sales Tax District Office. For telephone enquiries in Toronto call 487-7161.

The Motor Vehicle Fuel Tax Act

Tax Rate Changes

- The tax rate on diesel fuel will be established at 27 per cent of the retail price determined by the Minister of Revenue.
- The 27 per cent tax rate applicable will be 7.0¢ per litre.
- The retail price of diesel fuel, to which the 27 per cent tax rate applies, will be adjusted on a quarterly basis beginning July 1, 1981.
- The tax on diesel fuel used in railway locomotives is 2.2¢ per litre. The tax will be pegged to an amount equivalent to 31 per cent of the amount of tax per litre applicable to diesel fuel.
- All purchasers who account for tax on the basis of use will be required to apply the tax rate in effect at the time of use.

Effective: May 20, 1981.

Colouration

A program of colouration for exempt middle distillate fuels will be introduced.

Effective: April 1, 1982.

The Gasoline Tax Act, 1973

Tax Rate Changes

- The tax rate on gasoline will be established at 20 per cent of the retail price determined by the Minister of Revenue.
- The 20 per cent tax rate applicable to each grade of gasoline will be:
  - 5.4¢ per litre of regular gasoline;
  - 5.8¢ per litre of regular unleaded gasoline; and,
  - 6.0¢ per litre of premium leaded or unleaded gasoline.
- The retail price of gasoline, to which the 20 per cent tax rate applies, will be adjusted on a quarterly basis beginning July 1, 1981.
- The tax on aviation fuel is 1.32¢ per litre. The tax will be pegged to an amount equivalent to 19 per cent of the amount of tax per litre applicable to diesel fuel.

Effective: May 20, 1981.

The Tobacco Tax Act

Tax Rate Changes

- Cigarettes and cut tobacco will be taxed at the respective rates of 36 and 30 per cent of their retail prices determined by the Minister of Revenue.
- The tax applicable will be:
  - 1.46¢ per cigarette; and,
  - 0.70¢ for each gram, or part of a gram, of cut tobacco and all other tobacco products except cigars.
- The tax rate on cigars will be maintained at 45 per cent but will be applicable to all price levels.
- The retail price of cigarettes and cut tobacco, to which the 36 and 30 per cent rates of tax respectively apply, will be adjusted on a quarterly basis beginning July 1, 1981.

Effective: May 20, 1981.

Inventories

Wholesalers will be required to declare their cigarette inventories as of midnight May 19, 1981, and to remit tax on such inventories as directed by the Ministry of Revenue.

All enquiries regarding gasoline tax, motor vehicle fuel tax, and tobacco tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y3
(416) 965-5407 or
(416) 965-3889

The Race Tracks Tax Act

Tax Rate Change

The rate of tax on triactor betting will be increased from seven to nine per cent.

Effective: May 20, 1981.

All enquiries regarding this change should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1X9

Revenue Changes for Beverage Alcohol

Domestic Beer

- The licence fee on the production of beer for sale in Ontario will be rescinded. This fee will be replaced by a mark-up of 20 per cent applied to the laid-down cost of the various package sizes.

Effective: June 1, 1981.

Spirits

- Mark-ups will be increased on domestic and imported spirits by an average of 5 percentage points.
- The mark-up on Ontario brandy will be reduced from 75 to 58 per cent.

Effective: July 20, 1981.

Actual price changes for individual products will be announced by the Liquor Control Board of Ontario.

All enquiries regarding spirits and domestic beer price changes should be directed to:

Ministry of Consumer and Commercial Relations
Communications Services
Queen's Park
Toronto, Ontario
M7A 2H6
(416) 963-0339

The Corporations Tax Act, 1972

Capital Tax

Associated Corporations and Members of Partnerships

- In determining whether a corporation qualifies for the flat capital tax rates, its paid-up capital will include the paid-up capital of associated corporations. Where the corporation is a member of any partnership, it will include, in addition to its own share, the share of any member that is related to the corporation.

Effective: for taxation years ending after May 19, 1981.

Appraisal Surplus

- Any appraisal surplus shown on the financial statements of a corporation will be excluded from the computation of paid-up capital.

Effective: for taxation years ending after May 19, 1981.

Small Business Development Bonds

- The special tax treatment of small business development bonds allowed under the Income Tax Act (Canada) will be paralleled.
- Interest on obligations qualifying under the federal program will be treated as dividends in computing taxable income for Ontario purposes.

Depletion Allowances — Oil and Gas

- The new federal system for ordinary and supplementary earned depletion applicable to the oil and gas sector will be paralleled.
- Supplementary depletion allowance will cease after 1980.
- Ordinary depletion allowance will be modified as follows:
  - Expenses for exploration on "Canada lands" and development expenses on enhanced recovery, oil sands and heavy oil projects will continue to earn depletion at $1 for each $3 of eligible expenditures.
  - Earned depletion for expenses for exploration elsewhere in Canada will be phased out on the federal basis.
  - All other development expenses will cease to qualify for earned depletion allowances.
  - All grants and incentive payments must be deducted from the earned depletion base.
  - Certain administrative and overhead costs will cease to qualify for earned depletion.

— All earned depletion allowances will be limited to 25 per cent of resource income.

Effective: January 1, 1981.

Development Expenses

- All development expenses incurred in Ontario (mining and oil and gas) will continue to qualify for 100 per cent deduction from income.
- The federal tax treatment of all other development expenses incurred elsewhere in Canada will be paralleled.

Effective: for expenses incurred after May 19, 1981.

Exploration and Development Grants

- The requirement that any assistance or benefit from a government, municipality or public authority must be deducted from Canadian exploration and development expenses under the Income Tax Act (Canada) will be paralleled.

Effective: for taxation years ending after 1980.

Corporate Tax Instalments

- Recent changes in payment of federal corporate tax instalments will be paralleled.
- The tax paid in a short fiscal year on which instalments are based will have to be grossed up to a full 365 day year.
- A newly amalgamated corporation will treat the combined taxes paid by its predecessor corporations in the prior year as tax paid by it in computing its tax instalments.

Effective: for taxation years commencing after September 30, 1981.

Fast Write-Off for Energy Efficient Equipment

- The fast write-off for energy efficient equipment will be extended to include equipment acquired before 1985.

Capital Cost Allowances on Multiple-Unit Rental Housing

- The capital cost allowances on eligible rental buildings started after October 28, 1980 and before 1982 will be allowed against income from other sources.

Permanent Establishment

- Section 7(8) of the Corporations Tax Act, 1972, will be amended to delete reference to the fact that a production or presentation by means of a performance on a public stage or in an auditorium or other public place deems a corporation to maintain a permanent establishment.

Effective: May 20, 1981.

All enquiries regarding corporation tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y1
(416) 965-4040

Fees and Licences

Driver's Licence Fee

The driver's licence fee will be increased to $15 for three years from $9 for three years.

Effective: July 1, 1981.

Municipal Motor Vehicle Registration Fee

The preferential fee for municipally-owned motor vehicles will be withdrawn and replaced by the applicable standard fees established under the Highway Traffic Act.

Effective: for the 1982 registration year.

All enquiries regarding these changes should be directed to:

Public and Safety Information Branch
Ministry of Transportation
and Communications
Parliament Buildings
Queen's Park
Toronto, Ontario
M3H 1J8
(416) 248-3501

Other Fees and Licences

A number of other changes in fees and licences will be introduced by various ministries. Dates of changes and the new levels will be announced by the respective ministries at a later date.

Appendix B

The Ontario Health Insurance Plan

Premium Increase

- Ontario Health Insurance Plan (OHIP) premiums will be increased from the current single and family certificate rates of $20 and $40 per month to $23 and $46 per month, respectively.

Effective: for premiums paid in respect of benefit months from October 1, 1981 onwards.

Premium Assistance Enrichment

- For 1981-82, premium assistance will be broadened as follows:
  (a) *Free Coverage*
    — single persons having taxable incomes of $3,000 or less;
    — families having taxable incomes of $3,500 or less.
  (b) *75 per cent Premium Reduction*
    — single persons having taxable incomes between $3,000 and $3,500;
    — families having taxable incomes between $3,500 and $4,500.
  (c) *50 per cent Premium Reduction*
    — single persons having taxable incomes between $3,500 and $4,000;
    — families having taxable incomes between $4,500 and $5,000.
  (d) *25 per cent Premium Reduction*
    — single persons having taxable incomes between $4,000 and $4,500;
    — families having taxable incomes between $5,000 and $5,500.
- These enrichments are effective beginning with the April 1981 benefit month. Eligible persons must apply to OHIP to receive these subsidized premium rates. Premium assistance applications for 1981 which have already been processed will be reassessed in the context of the new assistance levels.
- Pensioners and social assistance recipients will continue to be eligible for free OHIP coverage.

All enquiries regarding the Ontario Health Insurance Plan should be directed to:

Ontario Health Insurance Plan
7 Overlea Boulevard
Toronto, Ontario
M4H 1A8
(416) 965-8361

or

the nearest OHIP office.

Appendix C

Small Business Development Corporations

The following amendments will be made to the Small Business Development Corporations Act and Regulations:

- The maximum equity capital will be increased from $5 million to $10 million for SBDCs which are public corporations. The limit on equity capital for private SBDCs will continue to be $5 million.
- An SBDC may not invest more than $5 million of its equity capital in a single eligible small business.
- The definition of tourism will be expanded to include recreation facilities and attractions which are designed to be used principally by tourists.
- SBDCs will be able to hold as part of assets not devoted to eligible investments:
    - — small business development bonds of Ontario based corporations; and,
    - — debt issued by shareholders of eligible small businesses on the acquisition of shares of the small business from the SBDC.
- An investment by an SBDC may not be used by a small business to purchase securities of other corporations.

Effective: May 20, 1981.

All enquiries regarding SBDC changes should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y7
(416) 965-6869

or

SBDC Program
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y2
(416) 965-1071 or
(416) 965-1740

Budget Papers

Presented for the information of
the Legislative Assembly of Ontario
by the Honourable Frank S. Miller,
Treasurer of Ontario and
Minister of Economics, May 19, 1981

Budget Paper A

Fiscal Developments in Ontario in the 1970s

Table of Contents

Fiscal Developments in Ontario in the 1970s

Introduction

This paper discusses fiscal developments in Ontario in the 1970s and their implications for the Province's medium term fiscal strategy.

Propelled by relatively strong economic growth and rising optimism for Canada's future economic prospects, public sector finances in Canada in the first half of the decade were characterized by strong revenue growth, a marked expansion in spending, and modest deficits. However, the economic climate for most oil importing jurisdictions in the industrialized world deteriorated in the second half of the decade. In Canada, lower real economic growth and declining productivity combined to automatically reduce the revenue growth of the non-oil and gas producing provinces and the federal government. Structural changes to taxation systems further reduced public sector revenue growth potential. As well, in Ontario, discretionary Provincial economic stabilization measures introduced to stimulate the economy cut into the Province's tax yields.

Rising inflation put upward pressure on government spending and deficits increased. In response, the Government of Ontario showed leadership by controlling spending increases within tolerable limits and containing its deficit, thus minimizing the inflationary impact of the public sector on the provincial economy. Subsequently, a federal-provincial program for controlling public sector expansion was adopted.[1]

Section I of this paper highlights the changing economic and fiscal environment of the 1970s. Sections II and III discuss the impact of the changed environment on Provincial revenues and expenditures. Section IV discusses how the pressures that began to emerge in the latter half of the 1970s will intensify over the medium term and Section V describes implications for the Government's fiscal framework. The paper concludes that with sound fiscal management and a rejuvenated tax structure, an appropriate balance in the Province's finances will be maintained.

[1]Hon. William G. Davis, *An Economic Development Policy for Canada*—paper presented at the Federal-Provincial Conference of First Ministers on the Economy, February, 1978.

I The Changing Environment of the 1970s

In Ontario, the 1970s were characterized by two distinct phases of economic activity. The first half of the decade saw strong economic growth. Employment was growing at an unprecedented rate and productivity was strong. As the decade progressed, however, changes began to emerge. Although job creation continued at an unparalleled pace, outstripping that of major competitive jurisdictions, real economic growth slowed and productivity deteriorated. Inflation jumped sharply in 1974 and, despite the implementation of wage and price controls in 1975, continued at high levels for the remainder of the decade. The contrast in performance over the two periods is illustrated in Table 1.

Table 1

Ontario's Economic Performance
(compound annual growth rate)

	1970 to 1974	1975 to 1979	1980
Nominal GPP	13.0	10.7	10.3
Real GPP	5.2	1.7	−0.2
Productivity (Canada)	2.6	0.9	−1.1
Employment	3.4	2.6	1.4
Unemployment Rate (% of labour force)	4.7	6.6	6.9
Inflation (CPI)	5.9	8.9	10.2
Personal Income	12.9	11.7	10.3
Corporate Profits	18.9	8.4	8.7
Personal Consumption	11.4	11.5	10.9

Source: Ontario Treasury.

Ontario's approach to fiscal policy also exhibited two distinct phases in the 1970s.[2] In the earlier period, fiscal policy was guided by the conventional Keynesian doctrine of broad-based tax actions and expenditure changes to influence the level of economic activity. Expansion of the public sector relative to the size of the economy during this period was seen to be beneficial and sustainable. Modest Provincial deficits were run to finance public capital creation and were funded primarily from non-public borrowing sources. As well, in 1971 and 1975, contra-cyclical stabilization policies were implemented and the deficits temporarily increased. However, certain institutional and structural changes evolved in the 1970s which reduced the efficiency and effectiveness of traditional policies.[3] The use of government

[2]For a complete discussion, see Hon. Frank S. Miller, "Problems and Progress in Federal-Provincial Fiscal Policy Coordination", Budget Paper B, *Ontario Budget 1979* (Toronto: Ministry of Treasury and Economics, 1979) pp. 5-13.

[3]*Ontario Tax Studies 15,* "Reassessing the Scope for Fiscal Policy in Canada" (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1978).

spending and substantial budget deficits to stimulate the economy during an inflationary period became strongly suspect.[4]

The introduction of Ontario's public sector restraint program in 1975 marked the beginning of a new approach to fiscal policy for the Province.[5] The policy of restraint was designed to reduce inflationary pressures and allow the private sector room to expand. This policy also worked to contain deficits, and provided the Province with the flexibility to initiate discretionary actions when economic conditions warranted. In this post-1975 period, broad-based tax moves were supplanted by sector-specific fiscal initiatives which were perceived as more beneficial and cost effective.

To examine the influence of the changed economic conditions and new approaches to fiscal policy on the Province's finances in the 1970s, trends and developments in both revenues and expenditures are reviewed in the following sections.

II Revenue Performance

The Government relies on a broadly based system of revenues to finance expenditures. In 1980-81, of the $15.5 billion in budgetary revenue collected by the Province, 81 per cent was collected as own source revenues, that is, directly through Provincial taxation and other levies. The remaining $3 billion came from federal transfers. Own source revenues are raised through a variety of mechanisms. In 1980-81, the major components of own source revenues and their proportion of the total were:

- the personal income tax (29%);
- the retail sales tax (20%);
- corporate taxation (16%);
- OHIP premiums (8%);
- tobacco and alcohol levies (6%);
- motive fuels taxation (6%); and,
- all other (15%).

Table 2 shows the growth and composition of own source revenues over the period 1970-71 to 1980-81.

Over the decade, budgetary revenues grew, on average, at approximately the same pace as the economy measured in current dollar terms. This aggregate view of revenues, however, masks significant changes which occurred to the underlying revenue structure.

---

[4]T. J. Courchene, *Monetarism and Controls: The Inflation Fighters* (Montreal: C. D. Howe Research Institute, 1976) pp. 106, 107.

[5]Hon. W. Darcy McKeough, *Supplementary Actions to the 1975 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, July, 1975).

Major Own Source Budgetary Revenue, 1970-71 to 1980-81

Table 2

($ million)

Year	Personal Income Tax[1]	Corporate Taxes[2]	Retail Sales Tax	OHIP Premiums[3]	Motive Fuels[4]	Tobacco, Alcohol	All Other[5]	Total
1970-71	992	439	674	619	409	268	656	4,057
1971-72	1,022	447	759	580	436	299	698	4,240
1972-73	1,205	544	895	520	487	350	797	4,798
1973-74	1,236	687	1,315	530	547	381	881	5,577
1974-75	1,446	1,045	1,569	548	572	403	1,027	6,610
1975-76	1,571	1,203	1,328[6]	572	578	440	1,132	6,824
1976-77	1,782	1,043	1,775	799	587	540	1,257	7,783
1977-78	2,447	1,036	1,927	830	608	606	1,394	8,848
1978-79	2,735	1,321	1,717[6]	977	633	700	1,448	9,531
1979-80	3,184	1,715	2,414	1,037	738	768	1,637	11,493
1980-81	3,578	1,953	2,562	1,059	751	813	1,863	12,579

[1]Ontario personal income tax is net of Ontario Tax Credits. Until 1972, Ontario received 28 points abatement from the federal government. Subsequently, Ontario personal income tax was 30.5 per cent of basic federal tax until 1977 when (reflecting new fiscal arrangements) the percentage rose to 44 points of a lower base.

[2]Corporate Taxes are the corporations income tax, the capital tax, the insurance premiums tax, and mining profits tax.

[3]Prior to the inception of OHIP in 1972, the system of health care insurance was dual—OMSIP (medical) and OHSC (hospital).

[4]Motive Fuels refers to gasoline and motor vehicle fuel taxation.

[5]All Other excludes the Revenue Guarantee.

[6]Reflects the impact of retail sales tax cuts in these years.

A number of important influences were at work which fundamentally altered the shape and responsiveness of the revenue system. These influences were:

- a change from an expanding to a slower growing and more inflationary economy;
- structural tax reforms;
- discretionary revenue reductions and economic stabilization actions;
- selective tax increases; and,
- revised federal-provincial fiscal arrangements.

Changed Economic Conditions

A large part of Ontario's revenue structure is automatically sensitive to the performance of the economy. The yields of the personal income tax, the retail sales tax, and the corporate income tax, which comprise over one-half of own source revenues, are heavily dependent upon economic growth. Even the volume-based taxes and levies respond in some measure to economic growth.

The healthy economic performance in the early part of the decade translated into buoyant revenues. Increasing real incomes and strong growth in corporate profits pushed up significantly the yields of the personal income tax, the corporations income tax and the retail sales tax.

As noted earlier, economic performance slipped towards the mid-1970s and was relatively sluggish for the remainder of the decade. Ontario's revenue growth slipped as well, averaging almost two percentage points lower in the second half of the decade as compared to the first, falling from a compound annual average of 13.4 per cent to 11.7 per cent.

Turning now to tax actions, Table 3 shows the estimated initial and 1980 costs of major, long-term tax reductions implemented in the 1970s.

Structural Tax Reforms

The early years of the decade saw important revisions to the basic structure of income taxation in Canada which had a lasting

Cost of Major Tax Reductions — Table 3
($ million)

	Year of Introduction	Initial Cost	1980 Cost
Personal Income Tax			
Reform and subsequent changes[1]	1972	—	450
Ontario Tax Credits	1972	180	460
Indexation	1974	65	1,600
Retail Sales Tax			
Prepared meals enrichment	1973	5	30
Household cleaning and footwear	1974	45	75
Production machinery and equipment	1975	160	240
Energy conservation items	1976	5	45
Transient accommodation	1978	35	40
Corporate Income Tax			
Fast write-off for machinery and equipment	1972	40	95
Reduced rate for small business	1976	30[2]	80
Inventory allowance	1977	40	60
Flat capital tax for small business	1977	5	50
Small business tax credit	1980	30	30

Source: Ontario Treasury.
[1]Includes all subsequent changes such as enriched personal exemptions, deductions for contributions to Registered Home Ownership Savings Plans, pension income deductions, and so on. It does not reflect the settlement under the Revenue Guarantee.
[2]This program replaced a previous tax credit aimed at helping small business.
Note: Some figures include the effect of enrichments as well as natural growth.

and constraining effect on revenue growth. Within the three-year period 1971 to 1974, a sweeping federal tax reform process drastically changed the shape of personal income taxation, and, to a lesser extent, corporate taxation in Canada. The definition of income for personal tax purposes, the deductions and exemptions permitted and the rates applied were all substantially altered during this period.[6] Under the corporate income tax, accelerated depreciation for manufacturing and processing industries was introduced on a permanent basis. These unilateral structural changes narrowed the base upon which income taxes are levied. While the revenue losses rose rapidly over time, a portion of the initial losses was sheltered on a temporary basis by the federal Revenue Guarantee. For example, in 1976, the final year of this five-year revenue protection program, Ontario's entitlement was about $350 million. Since that time, the Province has had to carry more than one-half of the cost of these annual revenue losses, estimated at about $450 million in 1980. Losses are only partially offset under the Revenue Guarantee compensation within the new fiscal arrangements.

A further major change to income taxation occurred in 1974 when indexing of personal exemptions and tax brackets was introduced. Indexing removes the inflation-induced fiscal dividends present in a progressive tax structure.[7] The cost of this additional unilateral federal move has escalated dramatically with each passing year. As Table 3 shows, indexing is estimated to have amounted to $1.6 billion in foregone Provincial revenues in 1980-81.

Ontario initiated its own tax reform process with the introduction of the Ontario Tax Credit Program in 1972. As fundamental in impact as income tax reform, the credit system integrates the burden of property and retail sales taxation into the personal income tax system. Enrichments to the program design escalated costs sharply within two years of its inception. In 1980-81, the program cost had reached $460 million, as shown in Table 3.

Thus, structural tax reforms implemented in the 1970s lowered the revenue yield of the income taxes by over $2.7 billion in 1980-81.

Discretionary Revenue Reductions

The declining economic performance evident by mid-decade prompted the Province to undertake in 1975 a wide-ranging $600 million stabilization effort with significant implications for revenues and the deficit.

[6] *Ontario Tax Studies 13*, "The Equity and Revenue Effects in Ontario of Personal Income Tax Reform: 1972-1975" (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

[7] *Ontario Tax Studies 9*, "The Dynamic Impact of Indexing the Personal Income Tax" (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974).

The major actions were a temporary two-point cut in the retail sales tax rate, temporary retail sales tax exemptions for automobile purchases and production machinery, and Home Buyers Grants.[8]

While these demand-stimulating initiatives were carefully targetted, the performance of the Canadian and Provincial economies continued to be below par and revenue growth remained sluggish.

The Government of Ontario thus faced a serious dilemma: reduced revenue growth and inflation-sensitive spending programs threatened the Province's financial balance, while poor economic growth and strong competitive pressures necessitated additional measures to boost economic performance. As discussed previously, the focus of Provincial stabilization policy underwent a transition. The major thrust was to provide selective supply and demand stimulus to key sectors, maintain a sound, competitive tax system, and achieve balanced public-private sector growth. On the tax front, Ontario made permanent the production machinery exemption under the retail sales tax and provided substantial tax savings to small business. The Province also participated in the federal-provincial economic stimulation effort of 1978, a joint program whereby the rate of retail sales tax was cut by three points for a six month span.[9] In 1980, Ontario introduced its own package of selective sales tax exemptions that extend into this fiscal year.[10]

Other important revenue reductions occurred over the decade as the Government pursued various objectives through discretionary tax policy. In the early 1970s, health premiums were substantially reduced as the Government moved from a dual system of hospital and medical care plans to the consolidated and broader OHIP structure. Succession duties were gradually lightened throughout the period, and finally eliminated in 1979, to maintain the attractiveness of Ontario as a place to invest. A number of measures were pursued under the retail sales tax, focusing in particular on energy conservation and incentives for the hospitality industry.

Selective Tax Increases

To ensure a level of revenues appropriate to the Government's ongoing fiscal requirements, certain tax increases were necessary over the period. The buoyant economic conditions of the early years allowed an increase in the retail sales tax from 5 per cent to 7 per cent in 1973. This increase financed a substantial enrichment in the level of local transfers and in the Ontario Tax Credit Program. Modest

---

[8]For a discussion of these moves, see Hon. W. Darcy McKeough, "Economic Recovery in Ontario", Budget Paper A, *Ontario Budget 1976* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1976).

[9]Hon. W. Darcy McKeough, *Statement on Complementary Action Coincident with the Federal Budget,* April 10, 1978.

[10]Hon. Frank S. Miller, *Supplementary Measures to Stimulate the Ontario Economy* (Toronto: Ministry of Treasury and Economics, November, 1980).

increases in tax rates for tobacco, alcohol and fuels were also implemented.

The uncertain economic environment in the second half of the decade precluded major tax increases. Revenue-raising measures were specifically designed to have minimum impact in the economy, or were undertaken to recognize serious cost pressures in certain expenditure areas. For example, OHIP premiums were increased; corporation taxes were raised and restructured; and slow growing volume taxes—tobacco, alcohol and fuel—were adjusted on a fairly regular basis.

Federal-Provincial Fiscal Arrangements

The federal government shares the cost of certain Provincial programs—principally medical and hospital services, post-secondary education and social assistance. Prior to 1977, the federal contribution took the form of shared-cost payments. Effective for 1977-78 and subsequent years, a substantial portion of these payments was replaced by a bigger share of the personal income tax and unconditional payments under the Established Programs Financing arrangements.[11] Although there was little net impact on the level of revenues of the Province, the higher share of the personal income tax accruing to Ontario means that total Provincial finances become even more sensitive to the performance of the Ontario economy. Moreover, it means Ontario must carry a larger share of the cost of existing as well as new personal income tax incentives implemented by the federal government.

Budget Paper B provides a full explanation of the status of federal-provincial fiscal arrangements.

Implications for the Revenue System

The slowing economy and reduced automatic revenue feedback, in combination with structural changes to the income taxes and pressures to remain competitive, led to an overall decline in the ability of the Provincial tax structure to generate revenues.

This change is reflected in the comparison of the performance of the 1970 and 1980 budgets which mark the beginning and end of the period under review. It is important to note that neither budget altered the tax systems already in place. However, in 1970-71, budgetary revenue increased by 15 per cent while the economy grew by just over 8 per cent, whereas, in 1980-81, budgetary revenue grew by 9 per cent while the economy expanded by over 10 per cent.

---

[11] Hon. W. Darcy McKeough, "Federal-Provincial Fiscal Reforms", Budget Paper B, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

Table 4 highlights the extent of the declining revenue responsiveness through an examination of the growth in revenue (net of permanent base and rate changes) relative to the growth in the economy. The elasticity or responsiveness of major own source revenues dropped from 1.2 in the first half of the decade to 0.9 in the second half. For example, in 1979-80, when the economy grew by 12.0 per cent in current dollar terms, revenues were over $300 million below what they would have been in the earlier period for the same amount of economic growth. The responsive taxes—the income taxes and the retail sales tax—all contributed to this reduced revenue potential. It is particularly evident that "other" taxes and levies, accounting for about one-third of total own source revenues, operate as a drag on revenue growth.

Responsiveness of Major Revenue Sources to Gross Provincial Product[1] — Table 4

	Personal[2] Income Tax	Retail Sales Tax	Corporations[3] Income Tax	Others[4]	Total[5]
1970-74	1.2[6]	1.2	2.7	0.3	1.2
1975-79	1.0	1.1	1.8	0.3	0.9
1980	1.2	1.0	0.7	0.2	0.8

[1]Expressed as the average of the responsiveness of the tax in each year net of base and rate changes and changes in fiscal arrangements.

[2]Tax assessed basis.

[3]Responsiveness of the corporations income tax is very sensitive to the business cycle.

[4]Others include fuel taxes, tobacco tax, vehicle registration fees, revenues from alcohol, and OHIP premiums.

[5]Weighted average.

[6]Refers to 1972 to 1974 period.

III Expenditure Performance

Table 5 shows the distribution of Provincial spending by major activity in selected years. Social programs, including hospitals, medicare, schools, universities, and social assistance are by far the largest expenditure component of the budget, representing 62 per cent of total spending, or $10.8 billion, in 1980-81. Resource programs, including roads, housing, industry, energy, manpower, agriculture and forestry accounted for $2.8 billion, approximately one-quarter of the amount spent on social priorities, or about 16 per cent of total spending. General Government, public debt interest and Justice Programs—listed in order of magnitude in 1980-81—account for the remaining 22 per cent of total spending.

As was found to be the case with revenues, the Province's expenditure structure and priorities also underwent significant change over the decade.

Expenditure Profile by Policy Field — Table 5
($ million)

	Social Policy Field	Resources Policy Field[1]	Justice Policy Field	General Government	Public Debt Interest	Total Spending	Spending as a % of GPP
1970-71	3,921	975	201	445	253	5,795	16.4
1975-76	6,984	2,255	374	982	724	11,319	17.5
1980-81	10,780	2,844	643	1,420	1,597	17,284	15.7

Source: Ontario Treasury.
[1]Includes Ministry of Northern Affairs and EDF.

Changing Priorities

The earlier years were predominantly ones of expansion in spending on social and economic infrastructure to meet the needs of a growing population and an expanding industrial base.

Table 5 shows that Provincial spending expanded from 16.4 per cent of GPP in 1970 to 17.5 per cent in 1975. Changing priorities during this period of rapid growth are illustrated in Table 6. The share of the Provincial budget allocated to education and transportation was gradually reduced to allow for expansion in community and social services and continued growth in health programs and other important areas.

In the 1960s, the high concentration of the population in the 5-19 age group meant that the Government had to provide new educational facilities. As this component of the population matured, there was an increase in family formation, with resultant changing priorities, and capital spending was directed towards investment in housing, water and sewer facilities, and public transit systems. For example, major new initiatives in these areas were introduced between 1974 and 1976 at an initial cost of $200 million. In 1980-81, this commitment had grown to over $400 million.

At the same time, the gradual increase in the proportion of elderly people in the population was beginning to impact on government expenditures. Spending per capita on services to the elderly are significantly higher than those for young people.[12]

Ontario undertook major initiatives for the elderly in the early 1970s. The health insurance system was expanded in 1972 to include nursing homes and home care services. In 1974, the Guaranteed Annual Income System (GAINS) was introduced, providing supplementary income to pensioners and disabled persons. In the same year, pensioners, as well as those people receiving social assistance, became eligible for a program of free prescription drugs. Today, these initiatives

[12]D. K. Foot, *Public Policy and Future Population in Ontario* (Toronto: Ontario Economic Council, 1979).

Changing Expenditure Priorities, 1970-71 to 1980-81 — Table 6

(per cent)

Ministry	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Health	28.0	27.4	28.9	27.9	27.4	28.1	29.3	29.3	30.1	29.6	31.2
Education	35.5	34.7	34.6	32.0	28.2	27.7	28.1	29.7	29.1	28.3	26.4
Transportation	9.6	9.4	9.0	9.8	8.5	8.7	8.0	8.3	8.1	7.9	7.7
Community & Social Services	6.5	7.2	7.4	8.1	8.0	9.0	8.9	9.1	9.3	9.3	9.8
Other*	20.4	21.3	20.1	22.2	27.9	26.5	25.7	23.6	23.4	24.9	24.9
Total**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ontario Treasury.

* Also includes Justice Policy and General Government Ministries.

** Excludes Public Debt Interest

cost approximately $500 million annually, or almost three times their initial cost.

In addition to the introduction of new social programs, there were demands for enrichments of existing programs. Cost pressures were mounting in the health system with visits to physicians increasing rapidly. More people were attending post-secondary institutions for a longer period of time. As needs-tested social welfare services were introduced, demands arose for more services.

As well, planned deficits, although justified by the high level of public capital creation, combined with rising interest rates to increase markedly interest payments on the public debt.

The above factors together produced annual spending increases well in excess of the growth in the economy. Such rates of spending growth could not be sustained without imperiling economic growth and stability.

The Province responded in a determined and timely fashion to this situation by introducing an expenditure restraint program in 1975. This program acknowledged the need to contain the growing burden of government and to prevent the public sector from holding back the rest of the economy. The challenge was to maintain the existing standard of basic public services, such as health care, through improved management of the public sector.

Ontario has been remarkably successful in meeting these objectives.[13] Table 5 shows that Provincial spending relative to GPP was reduced from 17.5 per cent in 1975 to 15.7 per cent in 1980, the lowest ratio in over a decade. As can be seen from Table 6, social programs received the highest priority: health spending rose from 27.4 per cent of the budget in 1974-75 to 31.2 per cent in 1980-81, and community and social services spending from 8.0 per cent to 9.8 per cent over the same period. Transportation and General Government programs, especially the Government's own internal operations, bore the brunt of restraint. Within the transportation allocation, however, public transit became a high priority. Sector-specific incentives were also pursued on the expenditure side through initiatives such as Home Buyers Grants in 1975, the Employment Development Fund in 1978, and the Board of Industrial Leadership and Development (BILD) in 1980.

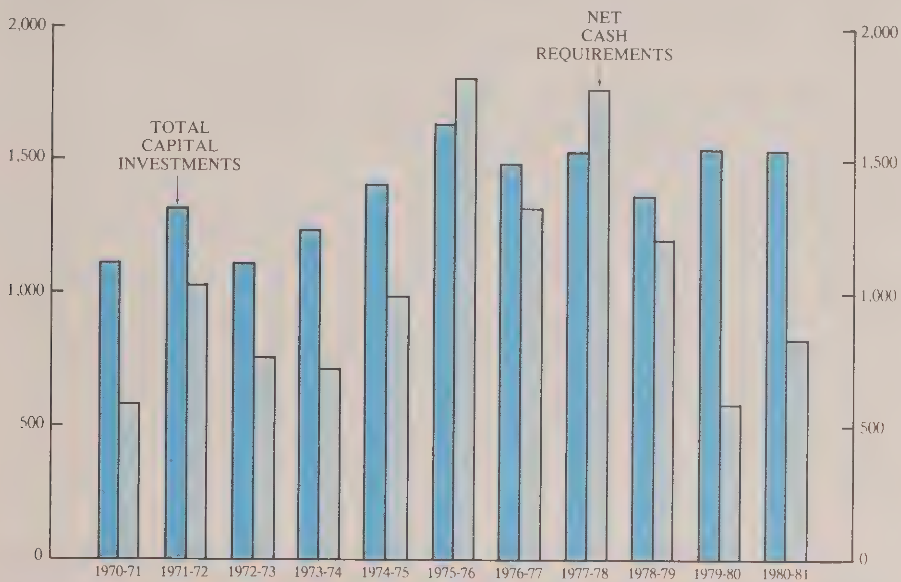
The level of capital expenditure was maintained at about $1.5 billion, but declined in relative terms. Chart 1 shows that, at the beginning of the period, investment was well in excess of the net cash requirement level. This situation changed as capital spending levelled off and cash requirements continued to expand as the operating costs

---

[13]Hon. Frank S. Miller, "Strengthening Fiscal Management", Budget Paper C, *Ontario Budget 1979* (Toronto: Ministry of Treasury and Economics, 1979).

of the infrastructure began to claim a larger portion of the budget. The shift from capital to operating costs created a temporary situation where cash requirements exceeded the level of investment. However, once the restraint program began to take full effect, this situation was corrected and a more appropriate balance established.

Total Capital Investments and Net Cash Requirements, 1970-71 – 1980-81 **Chart 1**
($ million)



Source: Ontario Treasury

The Impact of Inflation

As with people and business, the Government's expenditures are sensitive to inflation. Transfer payments to individuals and Provincially-supported institutions account for approximately 70 per cent of total spending; wages and salaries and other direct operating expenditures 15 per cent; public debt interest 10 per cent; and, other spending 5 per cent. Higher inflation raises wage settlements, the cost of capital, operating overhead and borrowing costs. Such inflationary pressures are of considerable concern. An inflation-induced increase in total spending of one per cent today costs $200 million, about four times the cost in 1970-71. The Government cannot react passively to rising inflation by simply passing on higher costs to taxpayers. Ontario's actions to contain the impact of inflation on the Provincial budget have included:

- reducing the size of the public sector;
- avoiding wholesale indexing of transfer payments and ministry allocations;

- acting to reduce both the deficit and borrowing over the longer term, thereby reducing public debt interest costs; and,
- reordering priorities and improving productivity to secure savings and strengthen efficiency within Government programs.

IV The Medium-Term Outlook

Previous sections have outlined the factors which influenced revenue and expenditure growth throughout the 1970s and documented their effects. In summary, the factors were:

- the economic situation;
- structural changes to the tax system;
- discretionary fiscal actions; and,
- changing expenditure priorities.

The influence of these factors will continue to impact in the 1980s. There will be added economic pressure from the phasing in of provisions under the General Agreement on Tariffs and Trade (GATT) and more aggressive inter-jurisdictional competition for industry. As well, demographic changes will continue to impact in the economy and on government priorities.

The Economy

In the mid-1970s when the phenomenon of simultaneous high inflation and slow growth first manifested itself, it was perceived to be temporary. However, the stage is set for it to remain a force in the economy for at least the first part of the 1980s. Among the causes of this persistent problem are: rapid energy price escalation, entrenched inflationary expectations, large government deficits and negative spill-over effects from the economy of the United States.

Over the past three years, wage increases have lagged behind inflation. Wage settlements are beginning to reflect entrenched inflationary expectations. This situation will be aggravated by accelerating energy price increases. Following oil price increases of $1 to $2 per barrel per year between 1973 and 1980, the National Energy Program sets out further annual increases of $4.50 per barrel, with additional increases to finance the program for the Canadianization of the oil industry.[14] Workers seek to be compensated for energy inflation and producers attempt to recoup higher wage and energy costs through higher prices. This results in a wage-price spiral.

There is an imbalance in the way the economy responds to demand and supply side disturbances. A prolonged period of deficient demand

---

[14]Hon. Marc Lalonde, *The National Energy Program* (Ottawa: Department of Energy, Mines and Resources, October, 1980).

accompanied by high levels of unemployment barely makes a dent in the price level. However, the effect of any adverse supply side developments, such as energy shortages and price increases, rapidly permeates the economy, not only fuelling wage-price spirals but worsening the inflation unemployment trade-off for a prolonged period of time.

It has been postulated by a number of authorities that this situation has arisen because protection against inflation through implicit or explicit indexing in taxes and transfers, COLA clauses and "cost plus" pricing is so institutionalized and automatic that unemployment and weaker sales have little or no effect on wage and price determination in the most visible sectors of the economy.[15]

As discussed earlier, the effects of simultaneous inflation and slow economic growth on government finances can be onerous.

Economic growth is the number one priority of the Government. The Province has taken a major step to improve Ontario's economic prospects by introducing BILD which sets out the industrial strategies for the 1980s. This approach, combined with reduced government deficits, will help restore higher growth and ease inflation. With a more favourable mix of real and inflationary growth, the responsiveness of the major taxes should improve. Increased real growth itself will improve revenue yields. Lower inflation will reduce expenditure pressure and higher growth will ease demands on cyclically sensitive transfers.

Inter-jurisdictional Competition

Competition for industry between jurisdictions is intensifying. Various direct and indirect subsidies and tax incentives to promote exports and attract and sustain industry are being deployed around the world. The Employment Development Fund and the new BILD program are a direct response by Ontario to this situation.

The major Provincial taxes affecting industry are corporation taxes and retail sales taxes. Earlier studies have shown that Ontario is competitive in these fields but this situation could be changing.[16] For example, in February 1981, the President of the United States proposed sweeping accelerated write-off provisions. This follows a recent two percentage point cut in the U.S. federal corporation income tax rate. In its March budget, Quebec proposed drastically reduced corporation income tax rates, although the reductions were somewhat offset by increases to the capital tax and an increase in the payroll tax. Alberta has dropped out of the corporate tax collection agreement with the

---

[15] Arthur M. Okun, "Political Economy: The Lessons of the Seventies", *Current Issues in Political Economy* (Toronto: Ontario Economic Council, 1979).

[16] Hon. W. Darcy McKeough, *Ontario's Retail Sales Tax Exemption Program for Production Machinery and Equipment: An Economic Assessment* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1978).

federal government and now administers its own corporate income tax, undoubtedly to have greater flexibility to provide incentives to industry.

The oil industry has reorganized its activities to take advantage of differentials in regional tax levels. Currently, other industries are scrutinizing the regional allocation of their taxable incomes. Some provinces have expressed concern about the potential for growing inter-provincial competition for industry. This situation is discussed in more detail in Budget Paper B.

Over the next eight years, the introduction of the new GATT provisions will heighten competitive pressures. The freer trade permitted under GATT means that Ontario industry will have greater access to foreign markets in areas where it holds a comparative advantage. In order to make the most of this opportunity, Ontario industry will need a favourable tax climate and export assistance programs similar to those which its foreign competitors enjoy.

Another facet of the GATT issue is its potential impact on highly protected areas of industry. This is a national problem which will place pressure on expenditures for manpower retraining and redeployment. If the needs are not met, there may be prolonged transitional unemployment and associated social assistance costs.

Changing Population Patterns

Changes in demographic patterns can have a significant influence on the size of the labour force, labour productivity, capital intensity, the propensity to consume, and the level and composition of aggregate demand. This in turn will have a significant impact on the revenue base. However, demographic changes evolve slowly over time and cannot be expected to have a pronounced influence on revenues over the medium term. Nonetheless, the slowing of labour force growth and the reduction in immigration — the traditional source of skilled trades people — is already influencing the level of economic activity.

Demographic changes will also exert pressure on expenditures in the 1980s. Since spending related to the aged is significantly higher than for other groups, this pressure will increase as the growth in the aged category accelerates in the future.

This situation emphasizes the need to find savings in areas where the size of the client group is falling and the demand will decline. This would improve the allocation of resources and reflect a balance of need and priority with those programs serving an expanding client group.

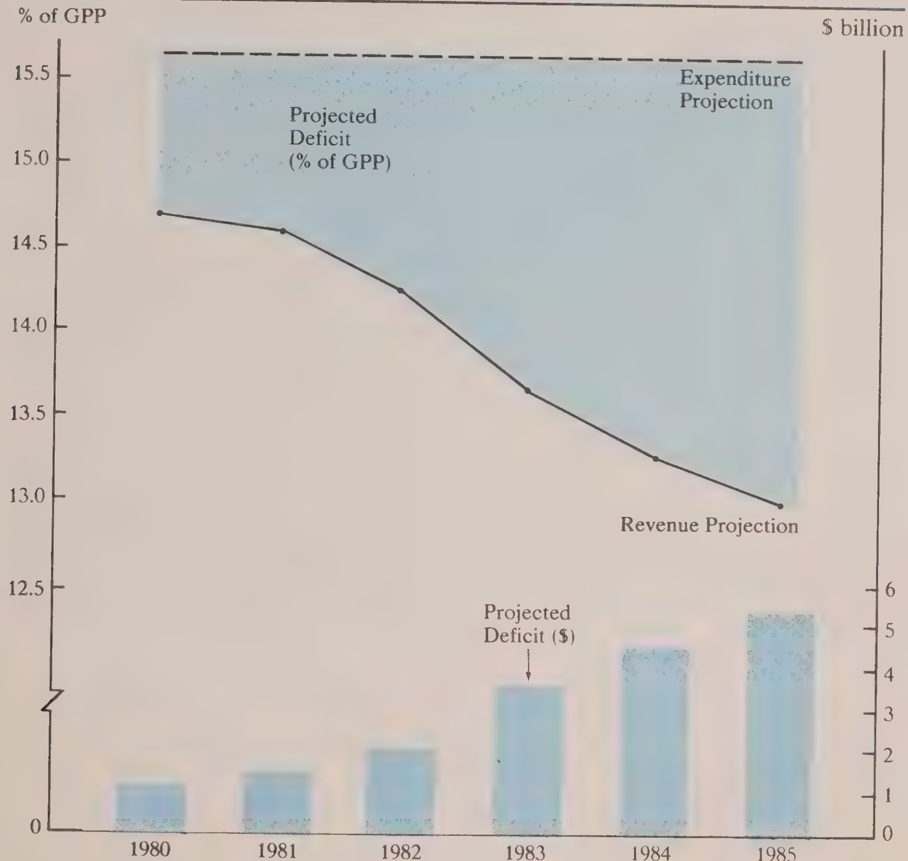
Federal-Provincial Fiscal Arrangements

Federal-provincial fiscal arrangements are being renegotiated for the 1982-87 period. The federal government has served notice that it will seek significant savings from these arrangements at the expense of the provinces. Budget Paper B presents a fuller discussion of this topic.

V Ontario's Fiscal Policy Setting

Previous sections have documented the revenue and spending structures that have been put in place in the last decade. The review has indicated a weakened revenue performance and an expenditure base facing persistent and strongly increasing pressures. The fiscal setting for the medium term, as shown in Chart 2, has important implications for the Province's fiscal strategy.

A Medium Term Fiscal Scenario — Chart 2



Source: Ontario Treasury.

Economic assumptions, annual percentage rates:
Real Growth 2.8
GNE Deflator 10.0
Growth in Employment 2.0

Revenue projections are based on the pre-1981 Budget tax structure. Expenditure is projected to grow at the rate of increase of GPP. Both revenue and spending trends reflect the medium term economic forecast. It should be emphasized that these are simply trend projections based on certain assumptions.

The economy is projected to grow at 13 per cent per annum in current dollar terms over the next five years. If expenditures increase at the rate of growth in the economy, revenue and expenditure paths grow more divergent and the deficit consumes a growing proportion of GPP.

The expenditure and deficit trends implied in the above projections are not conducive to the restoration of stable economic growth and lower inflation. These realities have been taken fully into account in the Province's medium term fiscal plan set out in Budget Paper C.

Conclusion

The Government of Ontario effectively handled a number of important fiscal challenges in the decade of the 1970s. In the early years, the resources to meet strong demand for the creation of new services and improvement of existing services were provided by strong growth in revenue and prudent deficit financing. As the decade progressed, the underlying revenue performance began to slip. A timely and sensitive restraint program, coupled with selective discretionary tax moves, provided the flexibility to meet expenditure priorities and allow necessary fiscal policy actions while maintaining the Province's strong financial position.

Looking ahead, expenditure pressures will remain strong. However, based on the pre-1981 Ontario Budget revenue structure, revenue growth would improve only modestly as economic growth picks up. The strong influence that economic conditions exert on government finances emphasizes the importance of public sector policies to control inflation and maintain a competitive environment to promote industrial growth and continued prosperity.

The key to restoration of balance within the Provincial budget is continued sound fiscal planning. Spending priorities must be clearly and equitably established to maintain the existing high level of essential services. To meet these objectives, funds in areas where need is declining must be redeployed to areas where need is increasing. The growth potential and yield of the tax system must be improved to generate higher levels of revenue in the future.

The fiscal strategy that the Province has adopted in this Budget addresses these issues and creates the flexibility to capitalize on the opportunities ahead.

Budget Paper B

Renegotiation of Federal-Provincial Fiscal Arrangements: An Ontario Perspective

Table of Contents

Renegotiation of Federal-Provincial Fiscal Arrangements: An Ontario Perspective

Introduction

Until the early seventies, federal-provincial relations evolved against a background of a fiscally strong federal government and an under-financed provincial sector with rapidly rising responsibilities. This "vertical" fiscal imbalance was corrected from time to time by federal-provincial fiscal agreements transferring more resources to the provinces.[1] By the end of the seventies, however, the federal government was saddled with an excessive budgetary deficit while the provincial sector had moved into a surplus position. This turnaround in fiscal imbalance between the two orders of government has prompted the federal government to put the gears of fiscal arrangements into reverse.

In its October 1980 budget, the federal government set out a plan to reduce its excessive deficit over the next few years. It proposed measures on many fronts to achieve both downward modifications in spending and increased revenue prospects. One of the more controversial aspects was the announcement that savings would be sought from ". . . reductions in federal transfers to provinces relating to areas coming under provincial jurisdiction." The federal government is renegotiating the terms of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, as well as the Canada Assistance Plan, with this objective in mind.

This paper disputes the need for reductions in intergovernmental transfers. It argues that federal retrenchment at provincial expense risks aggravating the already serious problem of fiscal and economic imbalance that has emerged among the provinces. This issue of "horizontal" fiscal imbalance should set the tone and direction of the negotiations for the 1982-87 fiscal arrangements period. The paper therefore emphasizes the need to reform the federal equalization program and to implement some form of inter-regional sharing of the unevenly distributed resource revenues. The danger of increased tax competition among provinces is also discussed. The paper concludes that the long-term national interest requires the fiscal viability of both orders of government and fiscal and economic balance among the regions of Canada.

---

[1]For a convenient summary, see *The National Finances 1980-81,* Canadian Tax Foundation, Chapter 10 (Toronto 1981).

I Transfer Reductions in Perspective

Between 1970 and 1980, the federal budgetary deficit rose from $1 billion to $14 billion. On a national accounts basis, the federal position moved from virtual balance to a deficit equivalent to 4.2 per cent of Gross National Product. The unprecedented deficits of recent years have occasioned a great deal of concern in the business and academic communities. It is now widely accepted that large deficits contribute to inflation even when resources are less than fully employed, that their financing can lead to a crowding out of private sector investment, and that they can undermine the general level of business and consumer confidence. The most recent federal budgets have recognized these concerns by attaching a high priority to the reduction of the deficit. The Government of Ontario supports this broad objective. For its part, Ontario has had an active policy since 1975 of restoring its capacity to balance the Provincial budget.[2]

The deficit reduction strategy adopted in the federal budget involves substantial cuts in transfers to the provinces. The Minister of Finance, the Honourable Allan MacEachen, has indicated that he is seeking

The Fiscal Negotiations in respect of the 1982-87 period will focus on:

1. *The Federal-Provincial Fiscal Arrangements and Established Programs Financing Act*

   Part I. This Part provides for the fiscal equalization program under which the federal government makes unconditional payments to provinces with below average revenue-raising capacity. In 1981-82 the program is worth over $3.6 billion.

   Part III. This Part provides the authority by which the federal government enters into personal income tax collection agreements with nine of the provinces and corporate income tax collection agreements with seven of the provinces.

   Part VI. This Part provides for federal assistance toward the cost of the "established programs" in health and post-secondary education, as well as a partial settlement in respect of the 1972 Revenue Guarantee. The federal contribution consists of tax room and cash. In 1981-82, the Established Programs Financing arrangement is worth nearly $11 billion. This Part also provides for Extended Health Care payments, worth $715 million in 1981-82.

2. *The Canada Assistance Plan (CAP)*

   Under this program, the federal and provincial governments share the costs of certain income support and social services programs. The 1981-82 federal contribution is $2.3 billion. CAP was included in the terms of reference given to the Parliamentary Task Force on the Fiscal Arrangements.

3. *The Community Services Contribution Program*

   This recently-terminated program provided $250 million per year to the provinces for a broad range of community services, primarily water and sewerage projects.

---

[2]For a discussion of Ontario policy, see Hon. W. Darcy McKeough, "Towards a Balanced Budget", Budget Paper C, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

savings of $500 million in 1982-83, and of $1 billion per year thereafter. These are net amounts to be applied against the deficit, leaving open the possibility of larger reductions at provincial expense. In this connection, it has been suggested that Ottawa might seek further reductions in its social policy transfers, either to finance adjustments in the revenue equalization program to offset any Established Programs Financing (EPF) cuts borne by the less affluent provinces, or to reallocate funds to other federal programs within the social affairs envelope. This Section of the paper argues that such a large-scale retrenchment in fiscal transfers is both unjustified and unwise.

Growth in Transfers

A review of the 1970s shows that transfers to the provinces have not been a significant cause of the federal government's fiscal difficulties. Table 1 presents data on federal budgetary spending, intergovernmental transfers and the deficit. Between 1972-73 and 1976-77, the growth of total budgetary spending exceeded the growth of intergovernmental transfers in every year but one, when a large increase in Revenue

Federal Finances and Provincial Transfers, 1972-73 to 1983-84 — Table 1

($ million)

Fiscal Year	Federal Budgetary Spending	Change	Federal Transfers to Provinces	Change	Federal Budgetary Deficit
		(%)		(%)	
1972-73	16,121	8.6	4,413	5.4	1,000
1973-74	20,039	24.3	5,059	14.6	1,384
1974-75	26,055	30.0	6,453*	27.6	1,733
1975-76	33,181	27.3	7,383	14.4	5,463
1976-77	38,930	17.3	9,062**	22.7	6,210
Growth during the period		162.3		116.5	
1977-78	42,882	—	9,352**	—	10,289
1978-79	46,922	9.4	10,484	12.1	12,226
1979-80	52,364	11.6	11,658*	11.2	11,375
1980-81	59,350	13.3	12,775	9.5	14,150
1981-82	66,640	12.3	14,150	10.7	13,705
Growth during the period		55.4		51.3	
1982-83	73,725	10.6	14,925	5.5	12,125
1983-84	81,215	10.2	15,900	6.5	11,795

Sources: Statistics Canada, Catalogue 68-211.
Government of Canada Budget, October 28, 1980.
*Incorporates extraordinary increase in equalization payments.
**Major cash flow for the 1972-76 Revenue Guarantee.

Guarantee payments occurred.[3] The greatest leap in the deficit occurred in 1975-76, when it suddenly jumped from $1.7 billion to nearly $5.5 billion. In that year, budgetary spending rose by almost 30 per cent, while transfers to the provinces rose by only 14 per cent.

Similar observations can be made for the 1977-78 to 1981-82 period, although comparisons between the two halves of the decade are complicated because of the restructuring of transfers in 1977. Transfer growth exceeded spending growth in 1978-79, but the average rate of growth over the five-year period is expected to be less than the corresponding average for spending. A large increase in the deficit occurred in 1980-81, but in that year the growth in transfers was considerably below that in budgetary spending.

These facts suggest that the deterioration in the federal government's financial position cannot be explained by changes in intergovernmental transfers. The federal circumstances are due to the same pressures facing the majority of the provinces. Revenue growth has fallen off as a result of a lack of growth in the economy and structural alterations to the tax system, including the indexation of the personal income tax. At the same time, rising inflation and high levels of unemployment have levered up social spending and public debt interest charges. Also, the federal government has had to absorb the net costs of the Oil Import Compensation Program.

Intergovernmental transfers are, of course, a large component of the federal budget, amounting to over one-fifth of spending. Accordingly, transfers cannot be entirely exempted from any effort to reorganize spending priorities. On the other hand, federal transfers represent an even larger share of provincial revenues, particularly in the less wealthy regions.[4] This makes it imperative that federal objectives be pursued with due regard to the problems and priorities of other levels of government.

Restraint has been a federal objective for a number of years. It is interesting to note the change in tone and emphasis between the current restraint exercise and the one initiated in the summer of 1978. As the Prime Minister explained in his October 2, 1978 letter to Premier Davis:

> "... it became apparent that our expenditure reduction commitments could not be met without some contributions from (intergovernmental transfer) programs. We believe that we have been fair in our approach to this problem with *the reductions in transfers to provinces being proportionately less severe than those being applied to programming which is our direct responsibility*". (emphasis added)

The cuts proposed in 1978, though not welcome, were a more realistic approach to the fiscal situation confronting the federal government

---

[3]The Revenue Guarantee is discussed on page 14 of this paper.

[4]In 1980-81, federal transfers to the provinces ranged from 9 per cent to 54 per cent of provincial budgetary revenue.

and the provinces. The much larger cuts implied by the transfer projections for 1982-83 and 1983-84 mean that provinces will be called upon to bear an unfair and unrealistic share of future restraint.

Federal Revenue Prospects

The expected improvement in federal revenues is another reason why major transfer reductions are unjustified. The overall GNP elasticity of the federal revenue structure can be expected to increase significantly in future years as Ottawa's share of oil and gas revenues increases, and as the incomes generated by this sector continue to outpace the growth of the economy in general. By contrast, the revenue prospects of the energy-consuming provinces are not so bullish. In short, the federal government has already set in motion a correction of the vertical imbalance that began to emerge in the 1970s. The more optimistic outlook for the long term means that Ottawa has the capacity to avoid precipitous cuts in transfers.

The Inequitable Impact of Cuts

The proposed transfer reductions must also be examined in light of the horizontal fiscal imbalance that has emerged between the oil and gas producing provinces and the consuming provinces. Table 2 displays the surpluses and deficits for the various provinces over the past decade, on the basis of the Statistics Canada financial management data series.[5] The surplus positions of the Western provinces will grow spectacularly during the 1980s, even with the federal government taking a larger slice of oil and gas revenues under the National Energy Program. Federal transfers, however, are largely concentrated in Eastern and Central Canada by virtue of the distribution of population and conventional tax bases. This means that the bulk of any transfer reductions must almost certainly be borne by the provinces with the least fiscal capacity.

Provinces currently receiving equalization payments could, as part of a federal strategy, be protected against cuts in EPF by way of offsetting increases in equalization. However, this approach would isolate Ontario as the only province whose fiscal position is undermined by federal transfer cuts. Such an inequitable result would only add to the fact that, between 1977-78 and 1981-82, Ontario will have been denied over $1.3 billion in equalization entitlements while its economy was

[5]For reasons of comparability among the provinces, Statistics Canada adjusts the data obtained from the public accounts of the provinces. As a result, these data tend to vary considerably from data shown in provincial budgets. Major adjustments in revenue and expenditure are involved, notably in respect of capital expenditure for some provinces, and special funds, corporations and boards, such as superannuation, financing authorities, and workmen's compensation boards.

Provincial Government Deficits and Surpluses, Selected Fiscal Years

Table 2

($ million)

	1972-73	1976-77	1977-78	1978-79	Cumulative 1972-73 to 1978-79
Newfoundland	−58.1	−139.4	−49.4	−222.3	−791.8
Prince Edward Island	1.8	−0.3	−22.3	−10.2	−46.3
Nova Scotia	−9.6	−28.3	−108.4	−160.8	−378.6
New Brunswick	−22.8	−86.2	−96.2	−36.0	−362.4
Quebec	−267.3	−908.2	−740.8	−1,160.3	−4,315.9
Ontario	−344.4	−1,025.5	−1,464.6	−1,211.6	−6,537.3
Manitoba	33.5	−58.6	−259.5	−63.7	−456.7
Saskatchewan	31.6	51.5	4.3	130.2	624.5
Alberta	−24.3	942.5	1,928.2	2,836.2	7,505.2
British Columbia	127.5	161.2	233.2	204.1	521.9
All Provinces	−532.1	−1,091.3	−575.5	305.6	−4.237.4

Source: Statistics Canada, Catalogue 68-207.

called upon to finance oil-generated increases in equalization payments to the traditional recipient provinces.[6]

If transfer cuts are made without regard to the different fiscal situations of the provinces, an already problematic condition will be aggravated. The off-loading of federal problems onto provincial governments will cause taxes to go up in provinces where tax effort is already high and expenditures to be cut in provinces that tend to have the highest expenditure needs. Chart 1 presents one measure of tax effort for the provinces. Although tax effort can be measured in many different ways, the evidence indicates that a substantial difference in tax effort exists between the oil-rich provinces and all the others.[7] It is far more difficult to measure expenditure need, but few would argue that provincial spending on social and economic development ought to be cut in the non-producing provinces relative to the producing provinces.

The growing fiscal imbalance among provinces makes it unrealistic for the federal government to use across-the-board transfer cuts as a mechanism of restraint. Major programs like EPF or the Canada Assistance Plan (CAP) should not be scaled down without compensatory adjustments elsewhere in the fiscal arrangements. But

[6]Bill C-24 (the 1981 retroactive amendment imposing a per capita income override on equalization) has excluded Ontario from the following entitlements:

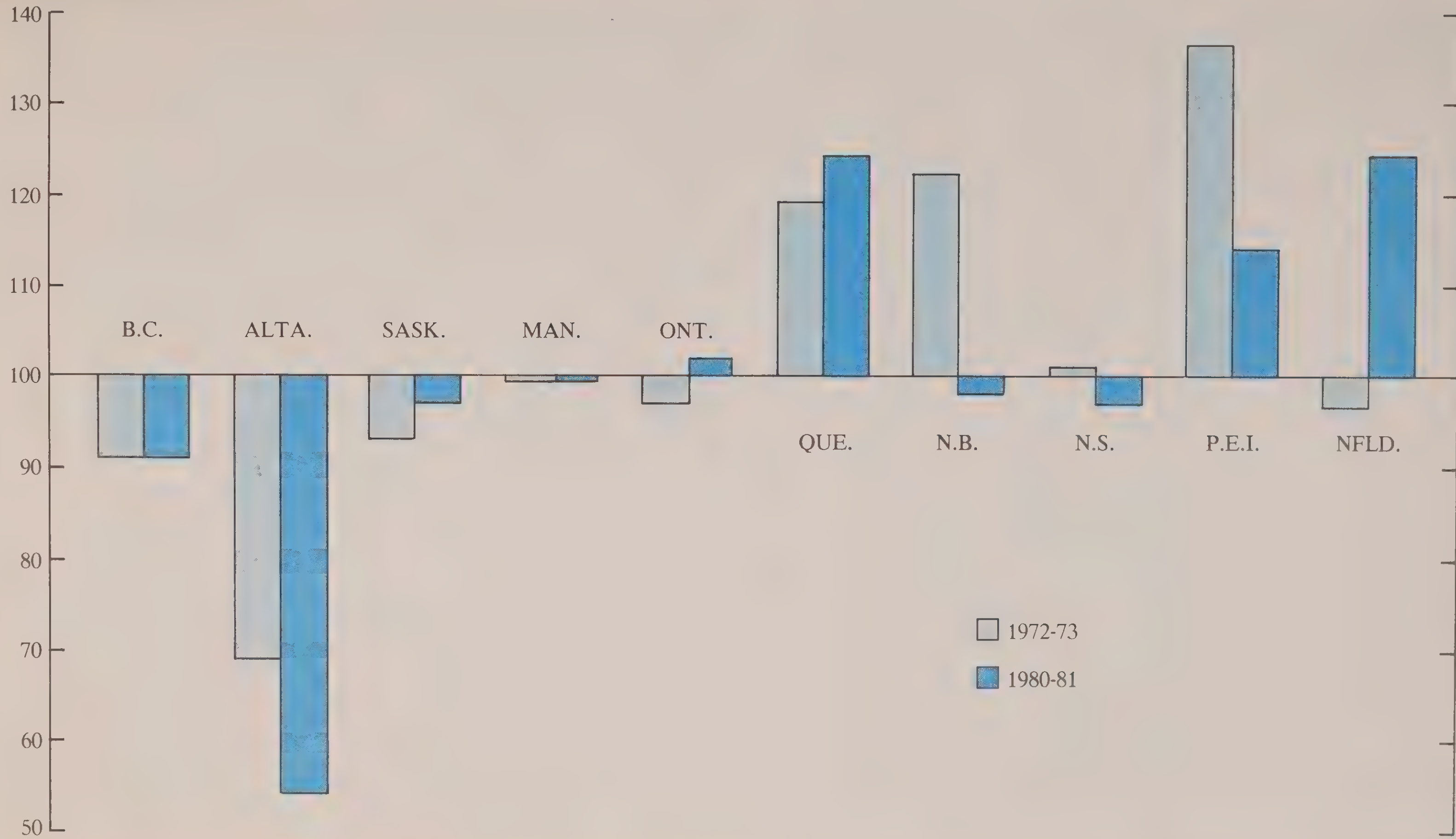
1977-78	$ 113 million
1978-79	$ 296 million
1979-80	$ 464 million
1980-81	$ 265 million
1981-82	$ 209 million
Total	$1,347 million

[7]For a discussion of tax effort see the Appendix.

Chart 1

Indices of Relative Tax Effort, 1972 and 1980

(National Average = 100)



Note: Derived from present equalization system, and expressed as the share of total revenue relative to the share of comprehensive tax base, but excluding all natural resources.

such adjustments must ensure that all non-oil and gas producing provinces are treated fairly, not just the traditional equalization recipients. To recognize this is to subordinate federal fiscal retrenchment to the much more important goal of resolving the inter-regional fiscal imbalance.

The EPF Arrangement

It needs to be stressed, as well, that the Established Programs Financing arrangement is not "over delivering". As part of its strategy to achieve "significant savings" in transfers, the federal government has created the impression that EPF has been much more generous than originally anticipated, and that provinces have made unwarranted gains.[8] This issue is fully examined in Section II of this paper. The conclusion is that EPF has not in fact gone astray when proper attention is accorded to its original objectives, the long-term nature of the agreement, and the spending pressures that are now building up. The success of the 1981 negotiations will depend in large measure on the willingness of governments to appraise EPF dispassionately in terms of the objectives that were set for it.

The Lack of Consultation

Finally, it is of considerable importance to examine the way in which transfer restraint is being handled by the federal government. Because of the need for long-term planning in the design and delivery of the major joint programs, it is critical that there be a full and careful review of all proposed changes. The October budget contained the threat of significant cuts, but gave no details. Two weeks later, the Community Services Contribution Program, worth $250 million to the provinces, was abruptly terminated. It has never been made clear whether this reduction is included in the total savings that the federal government is seeking from the provinces.

The federal Minister of Finance announced on February 5 that a Parliamentary Task Force would be set up to examine the fiscal arrangements within the context of the government's expenditure plan as set out in the October 28 budget, with a mandate to report by the end of June. It was later indicated that the federal government would not have specific proposals to make until such time as it had reviewed the work of the Task Force. This means that some eight to ten months will have elapsed between the announcement of transfer cuts and the tabling of negotiable proposals. Provincial budgeting has, in the meantime, been forced to proceed under considerable uncertainty.

---

[8]See, for instance, Hon. Monique Begin, "Notes for a Statement to the Press", Toronto, May 14, 1979.

In summation, a program of large-scale reduction in federal transfers to the provinces is highly inappropriate given current fiscal circumstances, and could potentially aggravate interprovincial disparities. Moreover, it could undo important past accomplishments in rationalizing the major programs in health and post-secondary education.

II The Success of EPF

The adoption of the Established Programs Financing arrangement in 1977 was an historic achievement. EPF culminated many years of federal-provincial negotiations, and incorporated features from innumerable proposals and counter-proposals. More importantly, it embodied a new approach to intergovernmental fiscal arrangements. The origin and structure of EPF were described in the 1977 Ontario Budget.[9] This Section of the paper will briefly review the experience under EPF from the point of view of the program's objectives.

The broad outlines of EPF were put forward at a Conference of First Ministers held in June 1976. At that time, the Prime Minister indicated the five principles that would form the basis of the federal approach[10]:

- The federal government should continue to pay a substantial share of program costs.
- The federal payment should be calculated independently of provincial program expenditures.
- There should be greater equality, in per capita terms, in the federal contributions to the provinces.
- The arrangements for the mature programs should be placed on a more permanent footing.
- There should be provision for continuing federal participation in the development of policies of "national significance" in health and post-secondary education.

There was widespread provincial acceptance of most of these principles, and a federal-provincial consensus on the course that was being charted.

A Financial Assessment

With regard to the first principle, the federal government has continued to pay its fair share of the costs of the established programs. But in the context of the severe restraint that is currently being

[9]See Hon. W. Darcy McKeough, "Federal-Provincial Fiscal Reforms", Budget Paper B, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

[10]Statement tabled by the Prime Minister of Canada, the Right Honourable Pierre Elliott Trudeau, on the occasion of the Conference of Federal and Provincial First Ministers, held at Ottawa, June 14 and 15, 1976.

proposed by the federal government, the real question is whether there is any ground for believing that Ottawa has paid more than its fair share. Ontario is not persuaded that it has. This conclusion can be supported in several ways.

One approach is to compare what the federal government expected to contribute just before the EPF formula was adopted with what it has actually contributed over the last few years. Table 3 presents this comparative data. It can be seen that the current level of EPF tax and cash transfers is reasonably within the range forecast in 1976. This demonstrates clearly that federal contributions have not become unexpectedly generous.

Comparison of 1976 Federal Projections of EPF Entitlements With Actual EPF Entitlements

Table 3

($ million)

Fiscal Year	Projected Total EPF Entitlements*		Actual Total EPF Entitlements**
	"High Price"	"Standard Price"	
1977-78	6,151	6,122	6,186
1978-79	7,032	6,931	7,092
1979-80	8,062	7,848	8,052
1980-81	9,175	8,770	8,931
1981-82	10,384	9,772	9,947

Source: Department of Finance.

*The "high price" projection assumed higher inflation and growth in real incomes than the "standard price" projection.

**Only 1977-78 has been finalized. Revenue Guarantee settlement has been removed.

The components of EPF have however behaved in unexpected fashion. The yield of the transferred tax points has been lower than expected, with the result that large transitional adjustment payments have become necessary to ensure that the value of the total package is equal to the all-cash guarantee. But it cannot be inferred from the growth in the cash contributions that EPF is "over delivering". The growth the provinces receive is generated by the tax plus cash total, not the cash component alone. It is the former that has to be used in evaluating the financial experience under EPF.

A second argument is that EPF is, by its very nature, a long-term arrangement. This is implicit in the fourth principle. It is therefore inappropriate to attach a great deal of significance to the movement of the federal and provincial "shares" over the short run. The total federal contribution measured against Ontario spending on the established programs and related functions did indeed rise during the first years. This happened for two main reasons. The Province was successful in reducing its expenditure growth rate in these areas, and the federal contributions were propelled upward by the higher inflation

The Structure of EPF

1. The EPF package established in 1977-78 consists of both tax room and cash transfers from the federal government to the provinces.
2. The package is based on the federal government's national average per capita contribution in 1975-76 under the established programs (hospital insurance, medicare and post-secondary education).
3. A province's "basic cash" entitlement for each year is equal to 50 per cent of this base-year federal contribution per capita, escalated over time by a cumulative growth index, and multiplied by the population of the province.
4. The escalator for each year is the compound average rate of growth of nominal GNE per capita over the three preceding years.
5. The tax room amounts to 12.5 equalized personal income tax points and 1 equalized corporation income tax point.
6. A transitional cash adjustment payment is made, if necessary, to bring the value of the tax points up to the value of the "basic cash".
7. Since the base-year federal contribution per capita varied among provinces, levelling adjustments were employed to ensure that all provinces received equal per capita contributions by 1981-82.
8. An additional equalized personal income tax point and its associated cash value are provided as partial compensation for the Revenue Guarantee which terminated at the end of 1976.

of earlier years that is built into the lagged GNE escalator.[11] These circumstances no longer hold. Ontario now anticipates considerable spending pressures in these program areas as a result of rising inflation. At the same time, the lag in the escalator will cause EPF transfers to grow more slowly than current spending. In fact, preliminary estimates suggest that the federal "share" is already beginning to decline. The movement of the federal and provincial "shares" is clearly a cyclical phenomenon, and is of no particular importance in the context of an arrangement that was well understood to be long term in nature.

In any event, a rising federal share was fully planned and expected in the short term. In the case of those provinces with below average per capita transfers in 1975-76, EPF involved a three-year upward levelling of federal per capita contributions and thus a degree of front-end loading that quickly increased the federal share. Much more important, however, was the intended deceleration of provincial spending. A key goal in adopting EPF was to give the provinces the flexibility and incentive they needed to reduce the growth of program expenditures in

[11]The relationship between current GNE growth and the EPF escalator, both on a per capita basis, is displayed below:

	Current GNE Increase	EPF Escalator
1976-77	14.04	14.70
1977-78	8.06	14.01
1978-79	8.98	10.82
1979-80	12.39	10.32
1980-81	9.56	9.80
1981-82	12.92 (est.)	10.30

the health and post-secondary education areas. As the Prime Minister said:

> "(The EPF proposal) also suits the current and future imperative, namely fiscal restraint, in that Provinces will have a greater incentive to implement what are admittedly difficult measures designed to restrain spending in these fields to reasonable levels."[12]

The incentive to provincial restraint provided by EPF was accompanied by the termination of the Revenue Guarantee, a step which seriously weakened provincial finances. The delivery systems are now much leaner and more efficient than they were in 1976. The provinces bear 100 per cent of the future risks under EPF. Their burden should not be aggravated by a "penalty" for having done successfully what the federal government clearly encouraged them to do when the agreement was struck less than five years ago.

Another point that cannot be overlooked in any financial assessment of EPF is the continued deterioration of provincial income tax revenues occasioned by the 1972 income tax reforms. The Revenue Guarantee that was put in place to protect provinces ballooned from a projected five-year cost of $50 million to a staggering five-year actual cost of $2.6 billion, even allowing for the arbitrary change of the formula that was made in 1976 to shave an estimated $750 million from provincial entitlements. The Revenue Guarantee payments were critical to provincial finances and the negotiation of an extension of the program was a key aspect of the 1976 discussions. In the end, approximately two personal income tax points were added to the EPF tax and cash settlement. This compromise, which represented about 40 per cent of what the Guarantee was worth in 1976, remains critical to provincial finances. The continuing losses that the provinces have sustained as a result of the compromise far exceed any "surplus" contributions that the federal government might think it has made through EPF.

Block Funding

Turning to the second principle of EPF — the independent calculation of federal payments — it can be said that the introduction of block funding was a major innovation in Canadian federalism. The old principle of cost sharing was abandoned, and federal payments were set to grow each year by an average measure of growth in the economy.[13]

---

[12]The Right Honourable Pierre Elliott Trudeau, Statement to Conference of First Ministers, December 13, 1976.

[13]The pre-EPF arrangements were not precisely dollar-for-dollar matching because of the national average per capita cost feature in the health-sharing formulas and the escalated $15 per capita option in respect of post-secondary education. These features gave rise to federal shares that varied above and below 50 per cent of provincial spending on eligible costs. A share above 50 per cent was said to include "implicit equalization". For a discussion, see Hon. Charles S. MacNaughton, "The Structure of Public Finance in Ontario", Budget Paper B, *Ontario Budget 1970* (Toronto: Ontario Department of Treasury and Economics, 1970).

The federal government thereby achieved greater predictability in its payments, and the provinces achieved the flexibility to manage their programs in a manner more appropriate to their individual priorities. Specifically, the reform eliminated the major disincentives to cost control that were inherent in the structure of the old cost-sharing arrangements.[14] As well, the administrative costs of both orders of government were reduced.

Despite the mutual advantages of block funding, the past five years have witnessed a certain amount of federal back-sliding on this important principle. For its own internal reasons, the federal government chose to divide its cash payments among the three programs on the arbitrary basis of the share of federal contributions going to each program in the 1975-76 base year. These ratios then came to have a life of their own. Attempts were made to prove that provinces had "diverted" federal dollars intended for health care by using these ratios to re-establish implicitly a matching relationship between federal contributions and provincial spending.[15] This component-by-component approach to evaluating EPF is a denial of its essential character as a block funding arrangement. Ontario continues to support strongly the principle of block funding.

Equal Per Capita Contributions

The third federal objective was the attainment of equal per capita contributions to the provinces. This has now been accomplished through the upward and downward levelling adjustments that were part of the transition to the "mature" EPF arrangement. Ontario initially had reservations about the expansion of "implicit" equalization inherent in the increased per capita transfers to the lower spending provinces.[16] The wisdom of upward levelling now has to be considered in light of the over-equalization that has occurred under the revenue equalization program. However, given the general acceptability and simplicity of equal per capita contributions, this principle should be preserved as part of EPF.

In view of the possibility of substantial fiscal dividends from the tax part of the package accruing in larger measure to the wealthy provinces, it may be necessary to strengthen the equal per capita principle through the introduction of a mechanism by which the

[14]Prior to 1977, the federal government cost shared in respect of about 80 per cent of the health care field. High cost hospital services were shareable, but many low-cost alternatives to hospitalization were not. The result was that provinces sometimes found it effectively cheaper to spend on the high-cost services rather than rationalize their delivery systems.

[15]The Hall Commission Report of 1980 exonerated the provinces from any dollar diversion. For a complete discussion, see Hon. Emmett M. Hall, CC., Q.C., *Canada's National-Provincial Health Program for the 1980's*, August 1980.

[16]See footnote 13.

federal government could recapture any per capita "surplus" that might accrue to a province.

Long-Term Certainty

From Ontario's point of view, the fourth federal principle was perhaps the most important. The mature programs were to be "established on a more or less permanent footing", precisely because the record of federal ceilings and audit rulings had thrown into question the long-term federal commitment to these programs. The Prime Minister made this point most persuasively in his statement to the First Ministers' Conference of June 1976, and then went on to add that:

> ". . . notice (of termination) would not be given lightly, because the intention is to underline the relative permanence and stability of the new arrangements."[17]

Over recent months, concern has grown that, despite this commitment to permanence and stability, the federal government is contemplating major structural changes to EPF. Specifically, there are concerns that the post-secondary education component of EPF could be removed from the program, with part of the federal savings channeled into direct assistance to students and enlarged grants to institutions for research and development. Such a move could lead to substantial complications for provinces, including major changes in the way that students and institutions are currently funded. It would mark a retreat from a barely-tested program that only four years ago was being hailed as a milestone on the road to federal-provincial disentanglement and cooperation. Certainly, the federation does not need another situation like the Community Services Contribution Program—a major federal-provincial program that was arbitrarily terminated by the federal government within two years of its inception, notwithstanding a formal commitment in the agreements to negotiate a continuing program that would provide "long-term certainty" to the provinces.

National Standards and Federal Visibility

In respect of the fifth objective, there are reasonable grounds for the federal government to believe that EPF has not worked as well as intended. That objective was "the provision for continuing federal participation in the development of policies of 'national significance' in health and post-secondary education". Provinces collectively may have to re-examine the issue of establishing procedures for the federal-provincial discussion of "national" priorities in post-secondary education. Given the federal concern over the preservation of national

[17]The Right Honourable Pierre Elliott Trudeau, Statement, June 14 and 15, 1976, *op. cit.*

standards in the health area, it could be useful for the federal government and the provinces to discuss criteria for ensuring that national standards are maintained. Finally, governments could examine ways of making Canadians more aware of the federal government's financial contribution toward the established programs. The onus, however, remains on the federal government to set forth its requirements in as specific a manner as possible.

Briefly summarizing, the Established Programs Financing arrangement has been a substantial success. Such problems as may be conceded to exist could undoubtedly be resolved without major alterations.

III Equalization and Fiscal Disparities

During the past five years, the equalization program has come to occupy a strategic place in the intergovernmental discussions on energy pricing, horizontal fiscal imbalance, and the overall federal-provincial transfer system. The 1980 Ontario Budget examined the purposes and structure of the equalization program and analyzed a number of the problems that have arisen recently.[18] These problems are briefly reviewed below.

Problems of the Equalization Program

The difficulties that have emerged in the equalization program are almost entirely the result of the rapid escalation of oil and gas revenues accruing to the producing provinces. The most obvious problem was that oil and gas revenues threatened to markedly increase federal equalization liabilities. The unusual leverage these revenues exert in the formula derives from the very uneven distribution of the tax bases and the fact that the majority of the Canadian population lives in the non-oil and gas producing regions. To preclude excessive payments, a variety of special features had to be introduced in respect of natural resources, including the discount on revenues from non-renewable resources, the one-third ceiling on resource-generated equalization, the removal of Crown lease sales revenue from equalization and, ultimately, the per capita income override. These features have brought the cost of the program under control, but have left its philosophy in disarray.

A second problem arose when the equalization formula unexpectedly generated entitlements to Ontario. Over the five-year period 1977-78 to 1981-82, these entitlements will amount to over $1.3 billion. In response, the federal government introduced legislative measures to prevent payments to Ontario. For its part, the Government

[18] See Hon. Frank S. Miller, "Equalization and Fiscal Disparities in Canada", Budget Paper A, *Ontario Budget 1980* (Toronto: Ministry of Treasury and Economics, 1980).

of Ontario chose not to press for its "notional" equalization, recognizing that its entitlements reflected a problem with the formula, not an inability — as the program objectives state — "to provide comparable levels of public services at tax rates that are not unduly high." It was nevertheless made clear that Ontario's acceptance of the special override on its entitlements was conditional on the program being reformed in 1982 as part of an overall solution to Canada's problem of regional fiscal imbalance.

The 1980 Ontario Budget also drew attention to the problem of over-equalization. Over-equalization has occurred in the sense that, during the 1970s, the equalization entitlements of the recipient provinces grew more rapidly than the cost of providing basic provincial services without unduly high tax burdens. While entitlements were automatically enlarged because of the growth of oil and gas royalties in the West, expenditures were not likewise affected. From a technical point of view, it can be argued that this result came about because the 50 per cent weight on non-renewable natural resources was too high. Alternatively, it can be argued that the "national average" was too high a standard to aim for, given that the national average fiscal capacity is so greatly influenced by the oil and gas producing provinces.

The above problems, taken together, were seen to involve a funding inequity. On the one hand, the Province of Ontario was excluded from receiving equalization. On the other hand, by virtue of the structure of federal taxation, the Ontario economy was being called upon to finance increased equalization to the traditional recipient provinces caused by increased oil and gas revenues in the producing provinces. In other words, through the equalization program, a measure of energy revenue recycling was taking place, but it was being done inadvertently and unfairly. Ontario suggested, as a possible solution, that consideration be given to either an interprovincial resources fund financed by resource-rich provinces that would operate in tandem with a reformed program of basic equalization, or a system of "negative equalization" which would likewise involve contributions from the wealthy provinces. Both these approaches situate the problem squarely within the context of the excessive and widening fiscal disparity between the "top" province and the national average.

The Future of Equalization

Ontario is greatly concerned about the future of the equalization program. The Province cannot accept protecting the funding level of a program that is in such need of reform at the same time that a more soundly based program like EPF is singled out for restraint. Nor can Ontario accept its continued exclusion from equalization entitlements through the use of special case principles. In this respect, the implementation of an Ontario standard would be no less discriminatory

than the current per capita income override. A reduction in the natural resource weight, effectively freezing out Ontario, would also be unacceptable, unless steps are taken to address the larger problem of East-West fiscal imbalance. If imaginative new approaches to interprovincial sharing cannot be devised, Ontario will expect to receive the equalization that it has so far been willing to forego. The latter course might have to entail federal financing through a larger share of oil and gas revenues, or the withholding of various federal transfers to the producing provinces.

The inter-regional disparities that underlie the fiscal arrangements have been the subject of much attention lately. Chart 2 shows the shifts of relative tax capacity over the course of the 1970s. As can be seen, Alberta's fiscal capacity has grown spectacularly. This rapid shift in relative wealth can be expected to continue through the 1982-87 period of the next fiscal arrangements, even with the pricing and revenue-sharing regime of the National Energy Program working to moderate the rate of change. This occurs because energy revenues initially accruing to the provinces and the producing companies are now rapidly working their way through the economy. The increase in the Western provinces' share of the conventional tax bases shows this to be the case.

IV Tax Competition

The interprovincial fiscal disparities evolving as a result of the oil and gas situation are leading to a new era of potentially serious economic competition among the provinces. This raises three fundamental concerns: (i) the potential negative impact on government revenues of competitive tax cuts; (ii) the implications of such actions for the distribution of the tax burden; and, (iii) the growing use of direct spending subsidies to industries as an alternative mechanism to influence businesses in their location decisions.

Table 4 shows the range of existing differentials in major tax rates in the ten provinces. These differentials have widened over the past few years. The impact of such differentials on industry and job location is stronger when competing jurisdictions are geographically close. For instance, the considerable tax differentials among the Western provinces are expected to widen further in the years ahead and this is causing concern in that region.

It is important to note that non-tax financial incentives are also employed by the provinces to attract and retain industry. As well, federal regional development policies, including DREE and regionally differentiated investment tax credits, explicitly pursue the national goal of regional economic balance.

Chart 3

Indices of Tax Base Per Capita
(National Average = 100)

Differentials in Major Provincial Tax Rates, 1972 and 1980
(per cent)

Table [illegible]

	1972	1980
Personal Income Tax	29.6 to 42.5	38.5 to 58.0
Corporations Income Tax	10 to 13	10 to 15
Retail Sales Tax	0 to 8	0 to 11
Gasoline Tax	15¢ to 25¢ per gallon	0 to 29

It is clearly in the interest of the national economy for Canada to have an internationally competitive federal-provincial taxation and investment climate— one that promotes the natural advantages of the various regions. It is equally apparent that overt competition in taxation and subsidies among the regions of Canada, if carried beyond a certain point, would be disruptive to the domestic economy and government finances. However, it is an open question as to what degree of differential in taxation and subsidies would constitute a disruptive situation. All provinces have legitimate aspirations for the development of their economies to full potential.

Within this broader context, the question of tax harmonization and competition is being addressed as part of the fiscal negotiations. Innovative ideas are being examined, including a "Code of Tax Conduct" and the restructuring of the federal corporate tax abatement to ensure that there is at least a minimum level of "provincial" taxation.

Ontario supports this review. The minimizing of undue and uncoordinated interprovincial competition for industry is as important to the maintenance of the common market as the elimination of explicit barriers to trade and the removal of overtly discriminatory aspects of the regulatory and spending practices of governments.

Conclusion

The fiscal arrangements are the third part of the triad that begins with the Constitution and energy pricing. Ontario therefore attaches a high priority to the current negotiations. The Province's goals are to ensure that:

- the problem of regional fiscal and economic imbalance is meaningfully addressed;
- the Canadian common market is protected;
- provinces do not suffer unjustified decreases in intergovernmental transfers;
- the Established Programs Financing arrangement is not substantively altered; and,

- Ontario is not treated unfairly in the context of equalization and inter-regional sharing.

Ontario is confident that the federal government will be able to bring its budgetary deficit under control without transfer reductions beyond the already terminated Community Services Contribution Program. Ontario's major concern is with the excessive fiscal and economic disparities that have arisen as a result of oil and gas revenues. As shown in this paper, these disparities affect the design of the fiscal arrangements in complex ways, and make it necessary to search for "global" solutions that tie intergovernmental transfers to the wellhead price of oil and the division of energy-related revenues. Within the framework of the goals listed above, Ontario is prepared to discuss such comprehensive changes as may be necessary to restore the climate of certainty and national economic leadership that is so greatly needed at the present time.

Appendix

Fiscal Capacity and Tax Effort, 1972-73 to 1980-81

The paper makes extensive reference to the issue of growing fiscal imbalance among the provinces. It also points out that this problem emerged essentially with the rapid increases in the price of oil and gas as these resources are very unevenly distributed in Canada. In this respect, the imbalance can be expected to become even more extreme during the eighties.

In this Appendix, further comparative data are presented in respect of the distribution of tax bases among the provinces and the variations in tax effort. Both measures are examined and displayed in a number of ways, as there are no definitive standard procedures for either.

The measures reflect the influence of energy developments, the shifts in economic activity and their effect on conventional tax bases, and the impact of inter-regional migration. In spite of the differences between the measures examined, there is generally a remarkable similarity in the evidence of widening disparities in fiscal capacities and tax efforts.

Fiscal Capacity

Comparisons have been developed for fiscal capacity in the various provinces, using three different measures, for the years 1972-73, 1976-77, and 1980-81. These are: (1) Provincial Gross Domestic Product as a broad but crude macro indicator; (2) a weighted comprehensive tax base derived from the representative tax system of the equalization program but without a discount on non-renewable resource revenues; and, (3) a weighted comprehensive tax base derived from the representative tax system of the equalization program, *excluding* all natural resource revenues[1]. The results of these comparisons are shown in Table A1.

In order to allow for population shifts, Table A2 displays the same information on a per capita basis and relates the results to the national average. It can be seen that, in the case of both the GDP and the non-resource measures, Atlantic Canada and Quebec maintained a rather

[1]At the end of this Appendix, a technical note describes the methodology used in deriving these weighted comprehensive tax bases.

Table A1

Shares of Comprehensive Tax Base, Selected Fiscal Years

(per cent)

Measure of Tax Base	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Gross Domestic Product										
1972-73	1.32	0.28	2.56	1.95	23.90	41.92	4.20	3.60	9.04	11.22
1976-77	1.38	0.29	2.47	1.98	23.61	38.69	4.12	4.30	11.41	11.75
1980-81	1.32	0.29	2.46	1.95	23.59	37.77	3.98	4.30	12.56	11.78
Representative Tax System										
All natural resource revenues at 100 per cent										
1972-73	1.49	0.30	2.61	2.08	23.40	39.52	4.02	3.49	10.44	12.63
1976-77	1.47	0.28	2.34	1.96	21.92	34.87	3.69	4.17	17.24	12.07
1980-81	1.39	0.27	2.23	1.84	20.23	32.41	3.17	4.26	21.64	12.58
All natural resource revenues excluded										
1972-73	1.47	0.32	2.74	2.14	24.20	41.31	4.17	3.38	8.38	11.88
1976-77	1.52	0.32	2.61	2.16	24.29	38.76	4.06	3.87	10.34	12.01
1980-81	1.48	0.32	2.62	2.10	23.61	38.05	3.68	3.76	11.85	12.53

Sources: Ontario Treasury.
Federal Department of Finance.

Table A2

Indices of Tax Base Per Capita, Selected Fiscal Years
(National Average = 100)

Measure of Tax Base	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Gross Domestic Product										
1972-73	54	55	70	66	86	117	92	86	119	109
1976-77	57	57	68	67	87	107	92	107	142	109
1980-81	54	56	69	66	89	105	92	106	144	107
Representative Tax System										
All natural resource revenues at 100 per cent										
1972-73	61	57	71	71	84	110	88	83	137	123
1976-77	60	55	65	66	81	97	83	104	215	112
1980-81	57	52	62	62	77	90	74	105	248	114
All natural resource revenues excluded										
1972-73	60	62	75	73	87	115	92	80	110	115
1976-77	62	62	72	73	89	108	91	96	129	112
1980-81	61	62	73	71	89	106	85	92	136	113

Sources: Ontario Treasury.
Federal Department of Finance.

stable deficiency in per capita fiscal capacity relative to the national average. With resources included, they all lost ground because of the overwhelming influence of oil and gas developments. Ontario displays a loss in fiscal capacity under all three measures, reflecting shifts in economic activity and a relatively stable population. Ontario drops below the national average only when resources are fully considered. The extreme position of Alberta comes out clearly even allowing for its rapid increase in population. With natural resources included, Alberta soars from 37 per cent to 148 per cent above the national average. More interestingly, Alberta rises from 10 per cent to 36 per cent above the national average, even ignoring all natural resources. This demonstrates the strong shift in economic activity that is taking place under the stimulus of oil and gas developments.

Tax Effort

In developing similar indices for tax effort in the various provinces, relative revenue positions were related to relative tax base positions[2]. In other words, a province's actual tax effort is compared to the average tax effort for all provinces. Results are shown in Table A3. Considerable reductions in relative tax effort since 1972 are evident in Prince Edward Island and New Brunswick. Quebec is consistently relatively high, while Alberta is clearly anomalous in the GDP measure. By far the largest increase in tax effort during the period occurred in Newfoundland.

A separate index is shown in the table for the inclusion of municipal revenues, which are currently not part of the equalization formula[3]. Municipally-raised revenues vary significantly among the provinces and their effect on overall relative tax efforts cannot be ignored. The indices show the strong modifying effect in the Atlantic provinces where municipal revenue is of less importance. Alberta still remains some 25 per cent below the national average and is expected to drop further as a result of its effective elimination of municipal debt.

Table A3 also contains a special index of tax effort. For this calculation, provincial revenues are adjusted in respect of estimated deficits and surpluses. The resulting disparities in tax effort become quite extreme.

---

[2]For methodology, see technical note at the end of this Appendix.

[3]The indices shown can only be considered as a rough measure of the modifying effect, because of difficulties in finding reliable estimates.

Table A3

Indices of Relative Tax Effort, Selected Fiscal Years
(National Average = 100)

Measure of Tax Base	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Gross Domestic Product*										
1972-73	105	147	103	128	116	91	95	90	89	104
1976-77	115	108	91	99	114	87	91	99	111	107
1980-81	120	105	87	90	105	87	80	107	138	100
Representative Tax System										
All natural resource revenues at 100 per cent										
1972-73	93	140	101	120	119	97	99	93	77	93
1976-77	108	113	96	101	123	96	102	102	74	105
1980-81	114	114	96	96	122	101	100	108	80	94
All natural resource revenues excluded										
1972-73	97	136	101	122	119	97	100	93	69	91
1976-77	114	112	97	101	124	96	102	97	52	104
1980-81	124	114	97	98	124	102	100	97	54	91
All natural resource revenues excluded, municipal revenues added										
1972-73	82	117	95	105	115	98	100	98	79	92
1976-77	100	95	93	90	119	97	104	97	64	104
1980-81	103	92	90	85	122	99	99	97	66	97
All natural resource revenues excluded, municipal revenues and deficit (surplus) included										
1972-73	102	110	94	108	118	100	93	90	78	83
1976-77	126	92	93	100	127	102	105	90	31	96
1980-81**	135	99	104	89	134	107	103	91	14	94

Sources: Ontario Treasury.
Federal Department of Finance.
Statistics Canada, Catalogue 68-207.

*Total Revenues, including 100 per cent from natural resources.
**Surplus and deficit data used pertain to 1978-79.

Derivation of Shares of Weighted Comprehensive Tax Base and Tax Effort

The provincial shares of the weighted comprehensive tax base can be derived from the following formula used to determine total equalization entitlements:

$$E = TR\ (\%P - \%B)$$

where

E = total equalization entitlements

TR = total revenues of all provinces from revenue sources to be equalized

$\%P$ = province's share of total population

$\%B$ = province's share of total weighted comprehensive tax base.

Step 1—Determine implicit aggregate fiscal capacity deficiency ($\%P - \%B$) by dividing total equalization entitlements (E) by the total revenues from revenue sources to be equalized (TR).

$$\frac{E}{TR} = (\%P - \%B)$$

Step 2—Determine a province's share of the total weighted comprehensive tax base by subtracting the province's fiscal capacity deficiency or excess from its share of the population.

$$\%B = \%P - (\%P - \%B)$$

Step 3—Index relative tax base per capita to the national average as follows:

$$I = \left(\frac{\%B}{\%P}\right) \times 100$$

Relative tax effort can be expressed as a province's actual revenues divided by the revenues that it would derive if it applied the national average provincial tax rate to its own revenue base. In short form, this is identical to dividing a province's share of total revenues by its share of total tax base.

$$\frac{\%TR}{\%B}$$

Relative tax effort can be indexed to the national average as follows:

$$I = \left(\frac{\%TR}{\%B}\right) \times 100$$

Budget Paper C

Ontario's Fiscal Management Strategy

Table of Contents

Financial Tables

Tables

Charts

Ontario's Fiscal Management Strategy

Introduction

The Province of Ontario has a solid record of achievement in fiscal management. The positive results of the policies put in place during the second half of the 1970s are clearly evident today. The more notable of these are:

- the achievement of a major reduction in the size of the public sector while continuing to deliver a high standard of social services;
- the maintenance of a competitive taxation and investment climate conducive to industrial growth and future development; and,
- the securing of the fiscal flexibility necessary to pursue economic growth strategies.

A major factor influencing the Province's future fiscal strategy is the inflation outlook. As indicated in Budget Paper A, minimizing the negative effects of inflation in the economy and on government finances will continue to be a major concern. Rising inflation has a proportionately greater impact on Provincial spending than on revenues. This increases deficits and feeds the inflation process. Arresting this process remains a critical challenge for both the public and private sectors.

It is against this backdrop that the Province has formulated its fiscal plan for the 1981-82 fiscal year. The plan has three parts:

- The growth in total spending will be held below the forecast rate of growth in the economy.
- Revenue prospects will be improved by the measures in this Budget.
- The deficit will be held to a level of less than $1 billion.

Over the medium term, the strategy is to gradually reduce the deficit to a level of approximately $700 million and, as the economy strengthens, to continue towards a balanced budget.

Section I of the paper reviews the 1980-81 interim results and compares these results to the original Budget plan. Section II sets out the fiscal projections for the medium term. The final section contains the detailed financial tables for 1981-82.

1 Ontario's Record of Fiscal Management

Ontario's fiscal management record is well documented.[1] Table 1 shows how, over the past six years, the rate of growth in Provincial spending has been held below the rate of growth in the economy. Expenditure measured relative to GPP has been steadily reduced from 16.9 per cent to 15.5 per cent over the period.

Reduction in the Size of the Ontario Public Sector — Table 1
(per cent)

	1976-77	1977-78	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Growth in Provincial Expenditure	10.1	8.6	6.4	9.8	9.2	12.2
Growth in GPP	13.8	10.2	9.5	12.0	10.3	13.6
Expenditure as a per cent of GPP	16.9	16.7	16.2	15.9	15.7	15.5

As well, manpower policies were implemented which, as shown in Table 2, reduced the size of the public service by almost 5,000 positions, or 5.7 per cent.

Increasing Efficiency in the Ontario Public Service — Table 2

	March 1975	March 1981	Change Since 1975
Classified Staff	69,618	67,637	(1,981)
Unclassified Staff	14,632	13,208	(1,424)
Other Crown Employees	2,859	1,314	(1,545)
Total	87,109	82,159*	(4,950)
Decrease (%)			(5.7)
Total Population (000)	8,172	8,639	
Population Served per Public Service Position	94	105	

*Reflects transfer of 1,089 positions from Ministry of Housing to municipal housing authorities in 1980-81.

The resulting higher productivity enabled the Province to maintain and improve service levels of major social programs including health care, while introducing major new initiatives such as the Board of Industrial Leadership and Development (BILD). The key to this achievement has been the expenditure management approach adopted by the Government.

[1]Hon. Frank S. Miller, "A Solid Fiscal Foundation for the 1980s", Budget Paper C, *Ontario Budget 1980* (Toronto: Ministry of Treasury and Economics, 1980).

This approach involves continual and intensive monitoring of spending during the fiscal year. In-year pressures for increased funds to meet changing needs and priorities are, to the maximum extent possible, met from within the approved expenditure base. Table 3 shows the significant redeployment of funds within the annual Estimates achieved in the past five years. During this increasingly inflationary period, actual spending, on average, was held to original planning targets.

Flexibility in Spending Plans — Table 3
($ million)

	Budget Plan	In-Year Increases	In-Year Reductions	Revised Plan
1976-77	12,576	339	448	12,467
1977-78	13,698	358	512	13,544
1978-79	14,555	255	397	14,413
1979-80	15,558	587	315	15,830
1980-81	17,121	427	264	17,284

Ontario's successful expenditure management system will continue to play a vital role in the years ahead. Demand for new and improved public services will remain strong and costs will continue to increase with high inflation. However, the realities of the revenue-raising capacity of the Province's taxation system, and the limitations on public sector borrowing, make the need for vigilant management of spending doubly important.[2]

Review of the 1980 Budget

Table 4 presents the interim results for the 1980-81 fiscal year and compares these to the original Budget plan adjusted for the supplementary measures adopted in the November 1980 Mini-Budget.[3]

1980-81 Budget Performance — Table 4
($ million)

	Budget Plan	Supplementary Measures	Interim	Change from Budget
Revenue	16,172	16,062	16,484	+312
Expenditure	17,121	17,121	17,284	+163
Net Cash Requirements	949	1,059	800	−149

These results show a reduction in the Province's net cash requirements to a level of $800 million, $149 million below the original

[2]Budget Paper A discusses the revenue-raising capacity of the Province.

[3]Statement by the Hon. Frank S. Miller, *Supplementary Measures to Stimulate the Ontario Economy*, November, 1980.

Budget estimate of $949 million. They also reflect a net increase in expenditure during the course of the year of $163 million, or less than one per cent of total spending. This expenditure increase, together with the 1980-81 portion of the Mini-Budget costs, was more than offset by an improvement in revenues. This revenue improvement partly reflects a stronger than anticipated economy during the last half of the fiscal year.

The major changes in revenue during 1980-81 are summarized in Table 5. The most significant increases were $148 million in the personal income tax and $52 million in the public utilities income tax, reflecting adjustments by the federal government, and $140 million in the corporation taxes. On the other hand, the retail sales tax declined from the original forecast reflecting mainly the cost of the supplementary measures.

Summary of In-Year Revenue Changes in 1980-81 — Table 5
($ million)

Revenue Increases		
• Personal Income Tax	148	
• Corporation Taxes	140	
• Public Utilities — Income Tax	52	
• Ontario Lottery Profits	49	
• Canada Assistance Plan	41	
• Mining Profits Tax	36	
• Investment in Environmental Protection	34	
• Interest on Investments	20	
• All Other	126	+646
Revenue Decreases		
• Retail Sales Tax	108	
• Established Programs Financing	29	
• Other Federal Payments	59	
• All Other	138	−334
Total		+312

Planned expenditures for the 1980-81 fiscal year were $17,121 million. During the year, $427 million of expenditure increases were approved, including an additional $121 million for hospital operations, clinical education and payments to doctors. An extra $36 million was provided for increased benefits under the Family Benefit Allowance (FBA) and General Welfare Assistance (GWA) programs. Other significant increases were $37 million for extra fire fighting in Northern Ontario, $15 million for Ontario Pensioner Property and Sales Tax Grants and $19 million for roads.

Consistent with efforts in previous years, a large part of the increases, or $264 million, was financed from within the original

allocation by redeploying funds from internal savings and under-spending. The major in-year spending increases and reductions are shown in Table 6.

Redeployment of Funds in 1980-81 Table 6
($ million)

Budget Plan		17,121
In-Year Increases		
• Operation of hospitals/clinical education	68	
• OHIP payments to doctors	53	
• FBA, GWA rate and caseload increase	36	
• Extra fire fighting and forest protection	37	
• Provincial roads	19	
• Pensioner tax grants	15	
• Drug Benefit Plan	15	
• Adult and apprentice training	15	
• Assistance to municipalities for low income housing	15	
• Election expenses	12	
• Other	142	+427
In-Year Reductions		
• Public Debt Interest	17	
• PSSF unfunded liability	14	
• Unconditional grants	15	
• TATOA—capital	10	
• Subway construction	10	
• Loans to Crown Corporations	10	
• GAINS	10	
• Other—including administrative costs	178	−264
Revised Plan		17,284

II Medium-Term Fiscal Framework

The Policy Framework

During the period 1975-1980, rising inflation combined with lower economic growth put pressure on spending, while revenues were not exhibiting the buoyant growth of earlier years. It took a concerted effort on the part of the Government, therefore, to curtail spending growth and reduce deficits without recourse to major tax increases.

Recent Ontario Budgets were based on fiscal plans which were consistent with the Government's objective to restore the capacity to balance the budget.[4] The 1977 Ontario Budget planned for a balanced budget in 1981, given favourable economic circumstances. By 1979, the Government of Ontario had made considerable progress towards this target, when net cash requirements were reduced to a level of $584 million.

[4]Hon. Frank S. Miller, "Strengthening Fiscal Management", Budget Paper C, *Ontario Budget 1979* (Toronto: Ministry of Treasury and Economics, 1979).

However in 1980, in light of the deteriorating economic outlook and predicted low real growth and increased inflation, the planned deficit was allowed to increase to $949 million.[5] In fact, the interim result was a deficit of $800 million, well below the original budget forecast.

Medium-Term Projections

The planned deficit for 1981-82 is $997 million. The increase from last year's level reflects:

- the impact of the increasing rate of inflation on spending; and,
- revenue-raising measures in this Budget impact for only part of the 1981-82 fiscal year.

Notwithstanding this higher deficit level, the medium-term projections show resumed progress towards balancing the Provincial budget.

The medium-term fiscal framework is stated in terms of target deficit levels which are consistent with prudent fiscal management and resumed economic growth. The projections shown in Table 7 are based on an improving economic situation with modest real growth of between two to three per cent per annum and easing inflationary pressures. Nominal GPP is projected to increase, on average, by 13.0 per cent per annum over the forecast period. Under these conditions, revenue yields will improve as the inflation/real growth mix becomes more favourable.[6] With the Provincial spending growth rate held in the 10 per cent per annum range, the deficit can be reduced over the medium term. This will bring down the deficit to a level of $700 million or 0.4 per cent of GPP by 1984-85.

Medium-Term Fiscal Projections — Table 7

	1980-81	1981-82	1982-83	1983-84	1984-85
			($ billion)		
Revenue	16.5	18.4	20.6	22.8	25.3
Expenditure	17.3	19.4	21.5	23.7	26.0
Net Cash Requirements	0.8	1.0	0.9	0.9	0.7
Increase (per cent)					
Revenue	8.1	11.6	12.0	10.6	10.8
Expenditure	9.2	12.2	10.8	10.2	9.9
Increase in GPP *(per cent)*	10.3	13.6	13.0	13.0	13.0
Net Cash Requirements as a per cent of GPP	0.7	0.8	0.6	0.6	0.4

[5] The Hon. Frank S. Miller, "A Solid Fiscal Foundation for the 1980s", *op. cit.*

[6] See Budget Paper A.

The economy may perform better than assumed in the projections. A further increase in real growth would make a considerable difference to the revenue performance, and, in conjunction with an easing of inflationary pressures, would substantially improve the fiscal outlook for the Province.

Financial Tables

Statement of Provincial Net Cash Requirements and Related Financing

Table C1

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Consolidated Revenue Fund Inflows				
Budgetary Revenue	12,322	14,214	15,563	17,458
Receipts and Credits	911	1,032	921	945
Total Revenues	13,233	15,246	16,484	18,403
Consolidated Revenue Fund Outflows				
Budgetary Expenditure	13,913	15,346	16,848	18,980
Disbursements and Charges	500	484	436	420
Total Expenditures	14,413	15,830	17,284	19,400
NET CASH REQUIREMENTS	1,180	584	800	997
FINANCING				
Non-Public Borrowing				
Proceeds of Loans	1,568	1,567	1,137	1,260
Retirements of Loans	(21)	(24)	(25)	(12)
Net Non-Public Borrowing	1,547	1,543	1,112	1,248
Public Borrowing				
Proceeds of Loans	195	—	—	—
Retirements of Loans	(90)	(411)	(143)	(61)
Net Public Borrowing	105	(411)	(143)	(61)
Increase in Liquid Reserves	472	548	169	190
TOTAL FINANCING	**1,180**	**584**	**800**	**997**

Revenues
($ million)

Table C2

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Taxation				
Personal Income Tax[1]	2,735	3,183	3,578	4,380
Revenue Guarantee	44	—	10	—
Corporation Taxes				
Income Tax	964	1,247	1,397	1,515
Capital Tax	231	269	291	329
Insurance Premiums Tax	83	100	104	118
Mining Profits Tax	42	100	161	140
Retail Sales Tax	1,717	2,414	2,562	2,831
Gasoline Tax	539	610	618	752
Motor Vehicle Fuel Tax	94	128	133	153
Reciprocal Taxation	41	36	51	57
Tobacco Tax	258	274	284	343
Land Transfer Tax	67	95	101	110
Race Tracks Tax	46	51	55	60
Succession Duty[2]	63	47	25	5
Public Utilities Income Tax	15	—	75	34
Other Taxation	8	4	4	3
	6,947	8,558	9,449	10,830
Other Revenue				
OHIP Premiums	977	1,037	1,059	1,194
Interest on Investments	428	490	542	484
LCBO Profits	356	400	433	621
Vehicle Registration Fees	301	310	323	340
Other Fees and Licences	244	264	288	186[3]
Fines and Penalties	62	68	73	77
Ontario Lottery Profits	46	62	116	122
Sales and Rentals	45	49	61	64
Royalties	57	70	76	78
Utility Service Charges	55	56	64	60
Miscellaneous	57	129	105	105
	2,628	2,935	3,140	3,331
Payments from the Federal Government (see Table C4)	2,747	2,721	2,974	3,297
TOTAL BUDGETARY REVENUE	**12,322**	**14,214**	**15,563**	**17,458**
Non-Budgetary Inflows				
Receipts (See Table C5)	420	391	305	290
Credits (See Table C5)	491	641	616	655
	911	1,032	921	945
TOTAL REVENUES	**13,233**	**15,246**	**16,484**	**18,403**

[1]Net of tax credits of $434 million, $455 million, $460 million and $260 million for the 1978-79, 1979-80, 1980-81 and 1981-82 fiscal years.
[2]Repealed April 10, 1979.
[3]LLBO revenues transferred to LCBO.

Expenditures
($ million)

Table C3

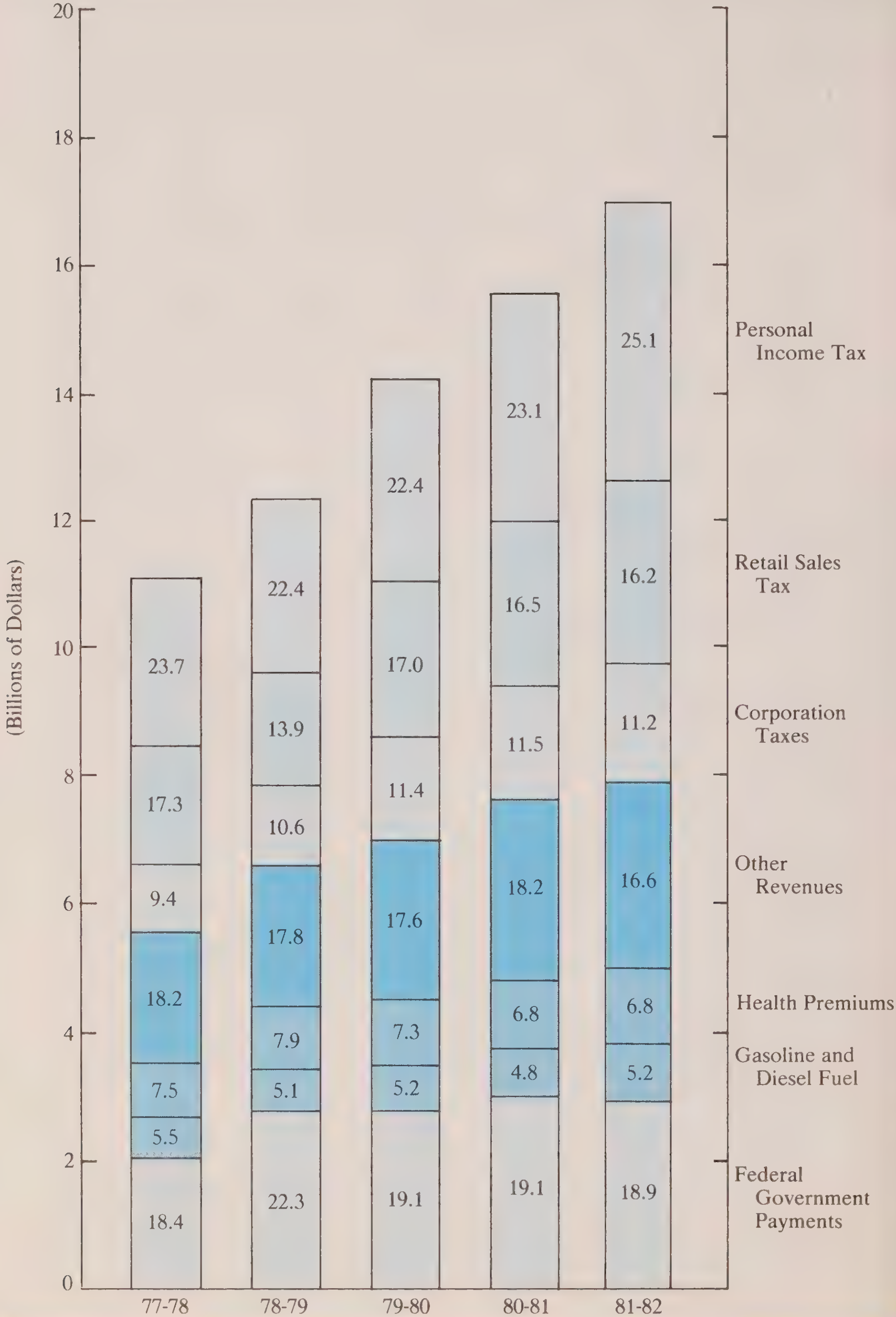
	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Social Development Policy				
Health	3,955	4,269	4,860	5,531
Education	2,390	2,563	2,604	2,973
Colleges and Universities	1,372	1,446	1,542	1,672
Community and Social Services	1,228	1,342	1,529	1,653
Culture and Recreation	207	202	204	203
Social Secretariat	2	3	3	4
	9,154	9,825	10,742	12,036
Resources Development Policy				
Transportation and Communications	1,069	1,138	1,210	1,254
Natural Resources	247	280	348	322
Housing	167	196	249	288
Environment	122	135	184	202
Agriculture and Food	174	159	184	191
Industry and Tourism	60	68	81	87
Labour	34	41	52	56
Energy	9	11	26	44
Resources Secretariat	3	3	3	3
	1,885	2,031	2,337	2,447
Justice Policy				
Solicitor General	168	186	209	225
Attorney General	140	157	182	184
Correctional Services	130	137	157	163
Consumer and Commercial Relations	63	68	75	80
Justice Secretariat	1	1	1	1
	502	549	624	653
General Government				
Intergovernmental Affairs	511	685	461	655
Revenue[1]	194	194	487	522
Government Services	253	329	284	294
Northern Affairs	125	137	157	156
Treasury and Economics	20	22	21	23
EDF	—	128	82	—
BILD	—	—	—	135
Board of Internal Economy[2]	28	26	43	36
Legislative and Executive Offices[3]	3	3	3	3
Management Board	8	9	10	12
	1,142	1,533	1,548	1,836
Public Debt Interest	1,230	1,408	1,597	1,823
Contingency Fund	—	—	—	185
TOTAL BUDGETARY EXPENDITURE	**13,913**	**15,346**	**16,848**	**18,980**
Non-Budgetary Outflows				
Disbursements (See Table C6)	378	351	263	226
Charges (See Table C6)	122	133	173	194
	500	484	436	420
TOTAL EXPENDITURES	**14,413**	**15,830**	**17,284**	**19,400**

[1]Includes Property and Sales Tax Grants for Ontario Pensioners in 1980-81 and 1981-82.
[2]Comprises Provincial Auditor, Ombudsman and Assembly.
[3]Comprises Premier's Office, Cabinet Office and Lieutenant Governor.

Major Budgetary Revenue Sources, 1977-78 to 1981-82

(per cent of total)

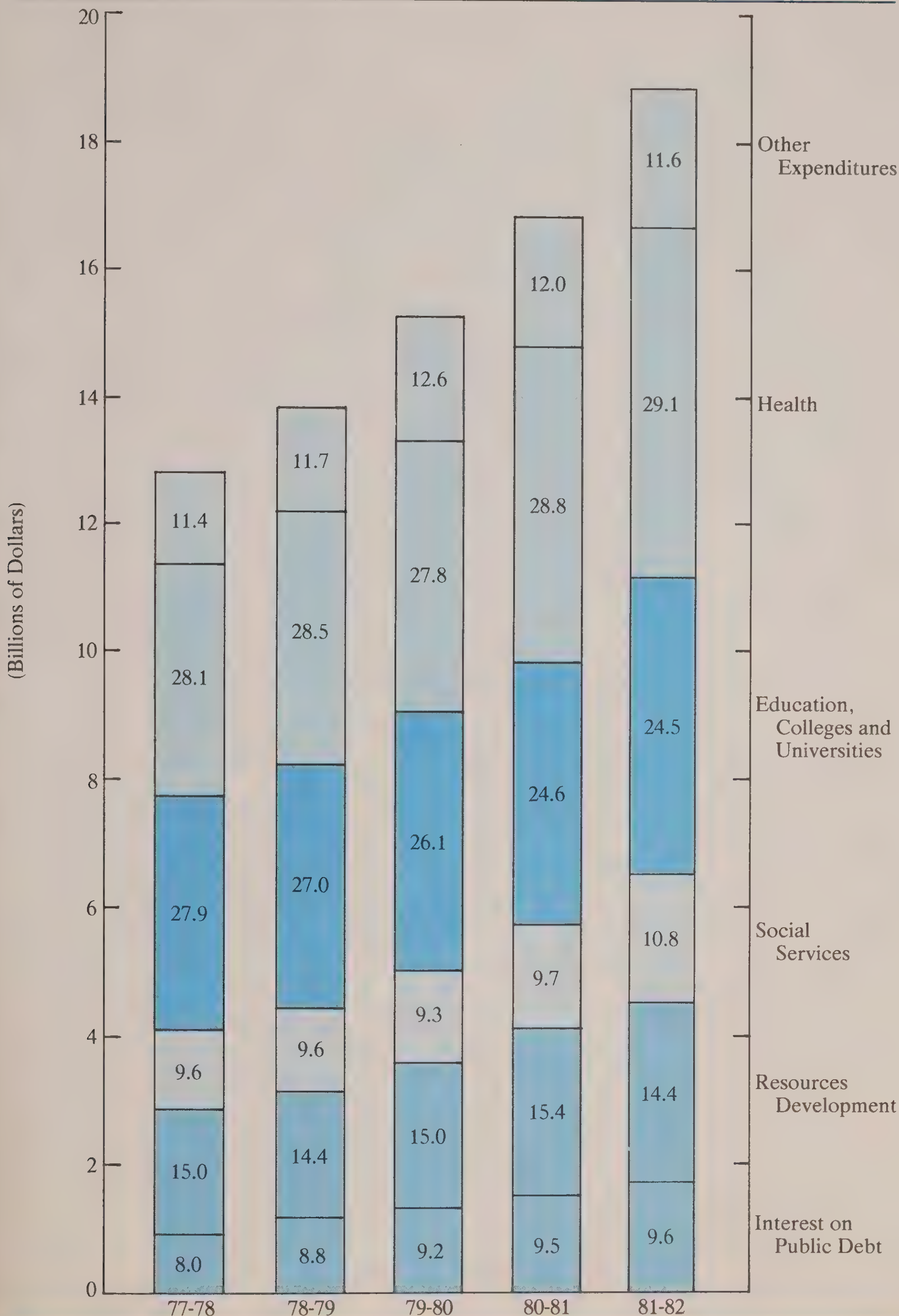
Chart C1



Major Budgetary Expenditure Functions, 1977-78 to 1981-82

Chart C2

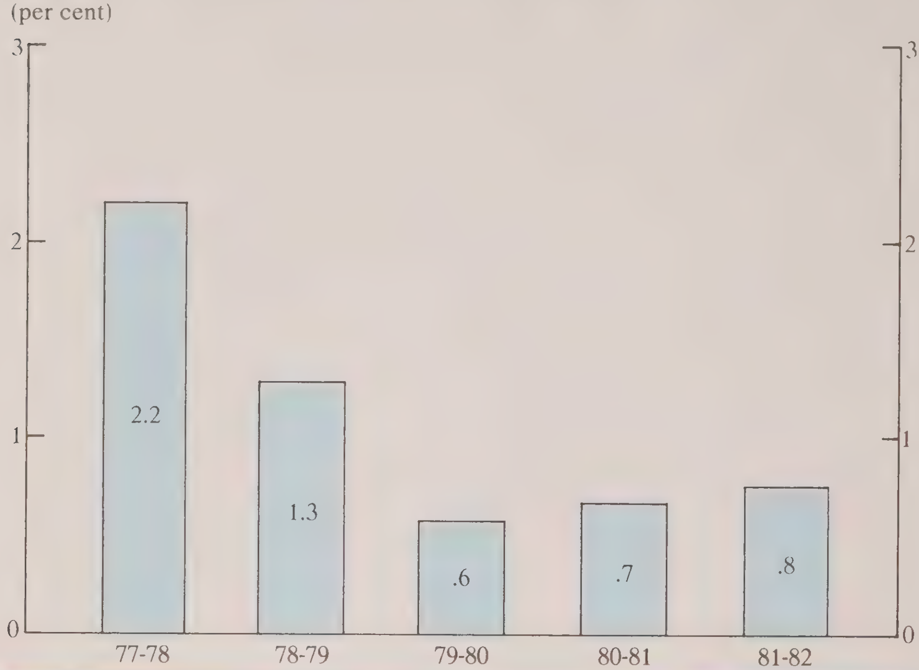
(per cent of total)



Supplementary Tables and Charts

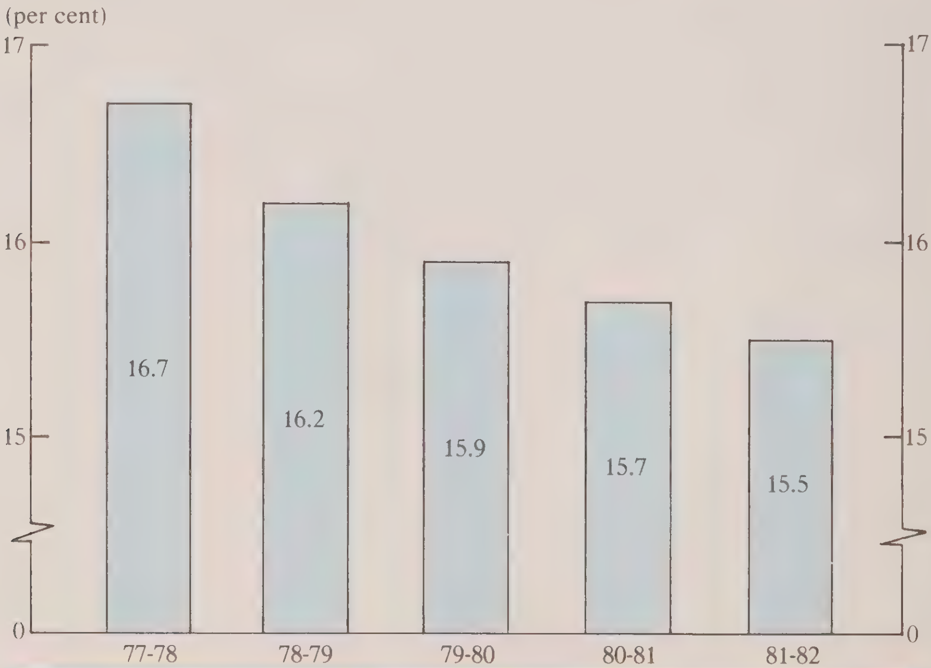
Net Cash Requirements as a Per Cent of Gross Provincial Product, 1977-78 to 1981-82

Chart C3



Total Expenditures as a Per Cent of Gross Provincial Product, 1977-78 to 1981-82

Chart C4



Federal Government Payments to Ontario

Table C4

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Established Programs Financing	1,605	1,817	1,934	2,147
Hospital Insurance	28	47	—	9
Extended Health Care Services	188	208	230	256
Canada Assistance Plan	418	481	547	582
Adult Occupational Training	105	93	114	115
Community Services Contribution Program	—	—	35	60
Bilingualism Development	50	4	34	35
Economic Development	13	9	9	17
Vocational Rehabilitation	11	13	15	17
Economic Stimulation[1]	288	2	—	—
Crop Insurance	8	9	9	15
Indian Welfare Services	9	8	13	14
Other Federal Payments	24	30	34	30
TOTAL PAYMENTS	**2,747**	**2,721**	**2,974**	**3,297**
Annual Per Cent Increase	34.7	(1.0)	9.3	10.9
Federal Payments as a Per Cent of Ontario Budgetary Revenue	22.3	19.1	19.1	18.9

[1]Federal share of the joint federal-provincial economic stimulus program which reduced the rate of retail sales tax from 7 per cent to 4 per cent for the period April 11 to October 7, 1978.

Details of Non-Budgetary Inflows — Table C5

($ million)

RECEIPTS	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Repayments of Loans, Advances and Investments				
Education Capital Aid Corporation	67	72	78	82
Investment in Environmental Protection	52	53	65	65
Universities Capital Aid Corporation	28	30	30	31
Ontario Development Corporations	20	23	20	22
Ontario Mortgage Corporation	143	45	17	18
Loans to Public Hospitals	19	20	19	18
Ontario Land Corporation	32	5	19	18
Tile Drainage Debentures	9	10	12	13
Municipal Works Assistance	4	5	5	5
Municipal Improvement Corporation	5	1	3	3
Ontario Junior Farmers	5	4	3	3
Crop Insurance Commission	—	—	11	1
Ontario Housing Corporation	4	5	12	1
Ontario Energy Corporation	—	106	—	—
Nuclear Power Generating Station	20	5	—	—
Other	12	7	11	10
TOTAL RECEIPTS	**420**	**391**	**305**	**290**

CREDITS	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Payments into Special Purpose Accounts				
Public Service Superannuation Fund	298	331	361	411
Superannuation Adjustment Fund				
Teachers' Superannuation Plan	59	69	84	95
Public Service Superannuation Plan	30	36	43	51
Province of Ontario Savings Deposits (net)	60	154	68	40
The Provincial Lottery	16	22	26	25
Super Loto	—	—	10	15
Motor Vehicle Accident Claims Fund	18	14	9	7
Other	10	15	15	11
TOTAL CREDITS	**491**	**641**	**616**	**655**
TOTAL RECEIPTS AND CREDITS	**911**	**1,032**	**921**	**945**

Details of Non-Budgetary Outflows

Table C6

($ million)

DISBURSEMENTS	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Loans, Advances and Investments				
Investment in Environmental Protection	147	139	125	126
Ontario Development Corporations	40	39	33	35
Tile Drainage Debentures	18	30	26	25
BILD	—	—	—	15
Ontario Land Corporation	15	19	20	14
Municipal Improvement Corporation	1	1	1	4
Regional and Municipal Public Works	20	9	4	3
Ontario Housing Corporation	29	4	7	3
Education Capital Aid Corporation	71	69	—	—
Crop Insurance Commission	—	38	—	—
Ontario Mortgage Corporation	15	—	—	—
Ontario Energy Corporation	20	1	—	—
Employment Development Fund	—	—	42	—
Other	2	2	5	1
TOTAL DISBURSEMENTS	**378**	**351**	**263**	**226**
CHARGES				
Payments from Special Purpose Accounts				
Public Service Superannuation Fund	71	83	89	105
Superannuation Adjustment Fund	5	10	17	26
The Provincial Lottery	11	11	34	29
Super Loto	—	—	10	15
Motor Vehicle Accident Claims Fund	19	20	18	14
Other	16	9	5	5
TOTAL CHARGES	**122**	**133**	**173**	**194**
TOTAL DISBURSEMENTS AND CHARGES	**500**	**484**	**436**	**420**

Ontario Payments to Local Governments and Agencies

Table C7

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Conditional Payments				
Grants to School Boards				
General Legislative Grants	1,969	2,121	2,139	2,446
School Capital Grants	—	1	46	56
Transportation				
Municipal Roads	359	382	418	446
Municipal Transit	137	132	130	172
Other	2	1	2	2
Social Assistance				
General Welfare Assistance	173	191	224	233
Children's Aid Societies	89	106	115	126
Homes for the Aged	86	95	108	120
Day Nurseries	30	34	40	51
Other	7	6	7	7
Housing	33	38	80	107
Health				
Local Health Units	42	53	60	69
Other	16	17	19	20
Environment	34	39	68	80
Agriculture	57	53	55	59
Culture and Recreation				
Library Boards	22	23	23	25
Other	20	16	16	16
Conservation Authorities	34	33	39	34
Northern Affairs	26	26	15	11
Other Conditional Payments	5	6	6	12
	3,141	3,373	3,610	4,092
Unconditional Payments				
General Support	134	221	87	177
Resource Equalization	110	113	143	157
Per Capita—Policing	93	101	87	110
Per Capita—General	76	115	39	78
Northern Ontario Support	37	61	24	47
Payments-in-lieu of Taxes	46	50	51	59
Other	15	17	22	22
	511	678	453	650
TOTAL TRANSFER PAYMENTS	**3,652**	**4,051***	**4,063**	**4,742**

*1979-80 excludes $14 million paid in 1978-79 to school boards, but includes $82 million and $143 million prepayments in respect of 1980-81 for school boards and unconditional payments respectively.

Total Expenditures by Policy Field and Ministerial Responsibility

Table C8

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Social Development Policy				
Health	3,966	4,272	4,897	5,567
Education	2,462	2,632	2,604	2,973
Colleges and Universities	1,371	1,446	1,542	1,672
Community and Social Services	1,226	1,342	1,530	1,655
Culture and Recreation	213	204	204	203
Social Secretariat	2	3	3	4
	9,240	9,899	10,780	12,074
Resources Development Policy				
Transportation and Communications	1,069	1,140	1,211	1,254
Environment	273	278	311	329
Natural Resources	247	281	350	325
Housing	250	229	281	309
Agriculture and Food	191	227	214	217
Industry and Tourism	99	107	114	122
Labour	36	44	53	57
Energy	30	12	26	44
Resources Secretariat	3	3	3	3
	2,198	2,321	2,563	2,660
Justice Policy				
Solicitor General	167	187	209	225
Attorney General	140	157	182	184
Correctional Services	130	137	157	163
Consumer and Commercial Relations	83	88	94	95
Justice Secretariat	1	1	1	1
	521	570	643	668
General Government				
Intergovernmental Affairs	511	687	464	655
Revenue[1]	194	194	487	522
Government Services	254	329	284	294
Northern Affairs	125	137	157	156
Treasury and Economics	24	25	23	30
Public Debt Interest	1,230	1,408	1,597	1,823
EDF	—	128	124	—
BILD	—	—	—	150
Pensions	77	94	106	132
Board of Internal Economy[2]	28	26	43	36
Legislative and Executive Offices[3]	3	3	3	3
Management Board	8	9	10	12
Contingency Fund	—	—	—	185
	2,454	3,040	3,298	3,998
TOTAL EXPENDITURES	**14,413**	**15,830**	**17,284**	**19,400**

[1]Includes Property and Sales Tax grants for Ontario Pensioners in 1980-81 and 1981-82.
[2]Comprises Provincial Auditor, Ombudsman and Assembly.
[3]Comprises Premier's Office, Cabinet Office and Lieutenant Governor.

Total Provincial Expenditures by Category — Table C9

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Transfers				
Local Governments				
School Boards	1,969	2,122	2,185	2,502
Transportation	498	515	550	620
Unconditional Payments	511	678	453	650
Social Assistance	385	432	494	537
Other	289	304	381	433
	3,652	4,051	4,063	4,742
Individuals and Institutions				
Operation of Hospitals	2,114	2,243	2,538	2,844
Payments to Doctors	1,023	1,122	1,339	1,588
Extended Care Benefits	132	148	164	183
Other Health	265	278	287	342
Teachers' Superannuation	330	347	316	366
Operating Grants to CAATS and Universities	1,015	1,075	1,154	1,273
Apprentice and Manpower Training	98	106	125	125
Student Assistance	86	93	98	106
Other Education	158	154	164	151
Income Support	690	723	1,096	1,161
	5,911	6,289	7,281	8,139
Other Transfers				
Loans and Trust Accounts	354	344	269	279
Investment in Water and Sewage Facilities	147	140	125	126
GO Transit	51	74	66	64
EDF/BILD	—	128	124	150
Miscellaneous Transfers	447	478	580	680
	999	1,164	1,164	1,299
Total Transfers	10,562	11,504	12,508	14,180
Own Account				
General Government				
Salaries and Benefits	1,564	1,707	1,864	2,065
Direct Operating Expenditures and Other	1,057	1,211	1,315	1,332
	2,621	2,918	3,179	3,397
Public Debt Interest	1,230	1,408	1,597	1,823
TOTAL EXPENDITURES	**14,413**	**15,830**	**17,284**	**19,400**

Financing
($ million)

Table C10

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Non-Public Borrowing				
Canada Pension Plan[1]	916	988	538	600
Teachers' Superannuation Fund	489	537	569	655
Municipal Employees' Retirement Fund	100	—	—	
CMHC Pollution Control Loans	63	42	30	5
Retirements	(21)	(24)	(25)	(12)
Net Non-Public Borrowing	1,547	1,543	1,112	1,248
Public Borrowing				
Treasury Bills (net)	195	(325)	—	—
Debenture Issues	—	—	—	—
Debenture Retirements	(90)	(86)	(143)	(61)
Net Public Borrowing	105	(411)	(143)	(61)
Increase in Liquid Reserves	**472**	**548**	**169**	**190**
TOTAL FINANCING	**1,180**	**584**	**800**	**997**

[1]Excludes $500 million flow through to Ontario Hydro in 1980-81 and 1981-82.

Ontario Lottery Corporation Proceeds — Table C11

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Balance at beginning of year	85	59	56	110
Wintario Proceeds	46	48	57	52
Lottario Proceeds	—	15	59	70
	131	122	172	232
Less — Expenditure on approved projects and overhead costs	72	66	62	54
Balance at end of year	59	56	110	178

Provincial Lottery Proceeds — Table C12

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Balance at beginning of year	29	34	45	37
Provincial Lottery Proceeds	16	22	26	25
	45	56	71	62
Less — Approved spending for health research, capital and social services	11	11	34	29
Balance at end of year	34	45	37	33

Super Loto Proceeds — Table C13

($ million)

	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
Balance at beginning of year	—	—	—	—
Super Loto Proceeds	—	—	10	15
	—	—	10	15
Less — Approved spending	—	—	10	15
Balance at end of year	—	—	0	0

Public Service Strength in Ontario by Category, March 31, 1981[1]

Table C14

Ministry	Classified Staff	Unclassified Staff	Other Crown Employees	Total
Premier	49	13	—	62
Cabinet Office	32	5	—	37
Management Board	60	12	—	72
Civil Service Commission	186	33	—	219
Government Services	2,702	279	—	2,981
Revenue	3,681	149	—	3,830
Treasury and Economics	383	48	1	432
Intergovernmental Affairs	238	74	—	312
Northern Affairs	163	57	—	220
Justice Policy	12	2	—	14
Attorney General	3,094	2,084	429	5,607
Consumer and Commercial Relations	1,823	314	213	2,350
Correctional Services	4,638	778	46	5,462
Solicitor General	1,489	572	3	2,064
Resources Development Policy	16	40	1	57
Agriculture and Food	1,543	473	—	2,016
Energy	123	31	—	154
Environment	1,434	165	—	1,599
Housing	962	129	25	1,116
Industry and Tourism	566	153	2	721
Ontario Development Corporations	159	9	—	168
Labour	1,371	175	19	1,565
Natural Resources	4,382	1,725	—	6,107
Transportation and Communications	9,834	1,779	—	11,613
Social Development Policy	32	32	—	64
Colleges and Universities	576	73	1	650
Community and Social Services	10,026	1,617	—	11,643
Culture and Recreation	871	326	—	1,197
Education	1,537	574	574	2,685
Health	10,973	1,377	—	12,350
O.P.P. Uniformed Staff and Security Guards	4,153	—	—	4,153
Environment Plant Operators	529	110	—	639
Total	67,637	13,208	1,314	82,159

[1]Excludes staff of the Lieutenant Governor, Office of the Assembly, Ombudsman and Provincial Auditor.

Ten-Year Review of Selected Financial and Economic Statistics
($ million)

	1972-73	1973-74	1974-75
Financial Transactions			
Revenues	6,294	7,177	8,855
Expenditures	7,038	7,885	9,832
Net Cash Requirements[1]	744	708	977
Financial Position			
Funded Debt[2] (excluding Ontario Hydro)	6,300	7,008	7,844
Provincial Debt Transactions (net)	1,032	710	851
Gross Provincial Product (GPP) at Market Prices[3]	43,577	50,557	60,040
Personal Income[3]	34,822	39,884	47,060
Population — June — (000's)	7,810	7,909	8,054
Funded Debt per Capita (dollars)	807	886	974
Personal Income per Capita (dollars)	4,459	5,043	5,843
Net Cash Requirements as a per cent of GPP	1.7	1.4	1.6
Funded Debt as a per cent of GPP	14.5	13.9	13.1
Total Expenditure as a per cent of GPP	16.2	15.6	16.4
Cumulative Net Borrowing for Ontario Hydro			
U.S	1,159	1,382	1,710
C.P.P.	—	—	—
Contingent Liabilities (mainly Ontario Hydro)[4]	3,070	3,382	3,933

[1]Net cash requirements exclude transactions relating to funds borrowed on behalf of Ontario Hydro.

[2]Funded debt includes bonds, debentures, notes and treasury bills.

[3]Gross provincial product and personal income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

[4]Excludes Hydro Bonds held as an Investment.

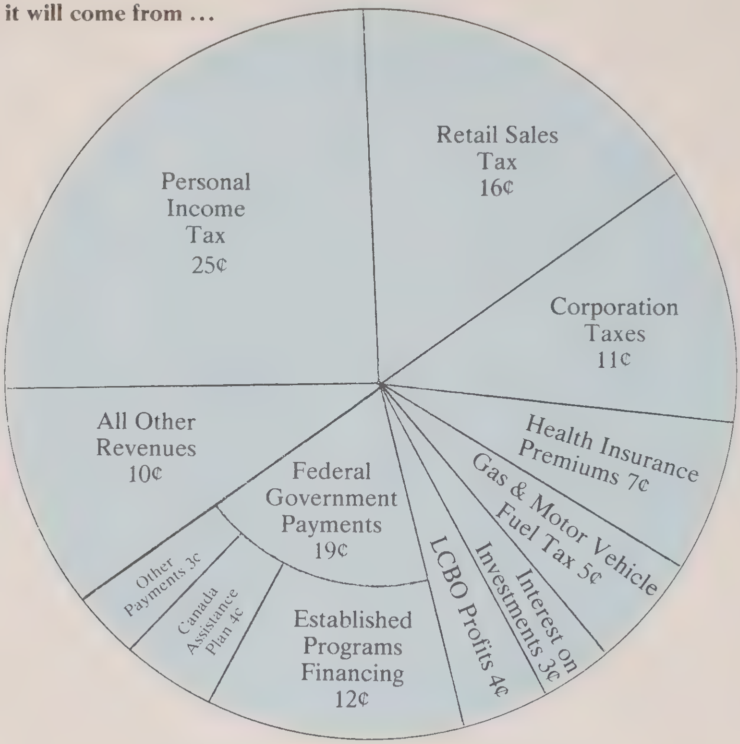
Table C15

1975-76	1976-77	1977-78	1978-79	1979-80	Interim 1980-81	Estimated 1981-82
9,520	11,148	11,782	13,233	15,246	16,484	18,403
11,319	12,467	13,544	14,413	15,830	17,284	19,400
1,799	1,319	1,762	1,180	584	800	997
9,818	10,895	12,364	14,037	15,196	16,214	17,401
1,974	1,092	1,506	1,652	1,132	969	1,187
64,802	73,721	81,244	88,938	99,628	109,899	124,834
53,902	60,959	67,164	73,714	81,698	90,121	101,700
8,172	8,265	8,355	8,444	8,503	8,570	8,639
1,201	1,318	1,480	1,662	1,787	1,892	2,014
6,596	7,376	8,039	8,730	9,608	10,516	11,772
2.8	1.8	2.2	1.3	0.6	0.7	0.8
15.2	14.8	15.2	15.8	15.3	14.8	13.9
17.5	16.9	16.7	16.2	15.9	15.7	15.5
2,240	2,509	2,901	3,568	3,782	3,690	n.a.
—	—	—	—	—	500	1,000
5,147	5,806	6,212	6,734	7,539	n.a.	n.a.

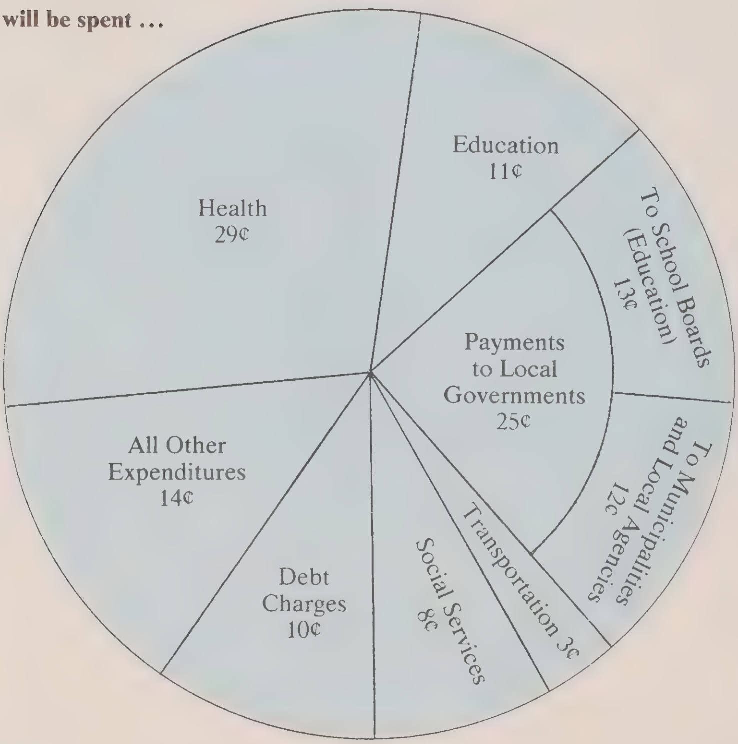
THE BUDGET DOLLAR

Fiscal Year 1981-82 Estimates

Where it will come from ...

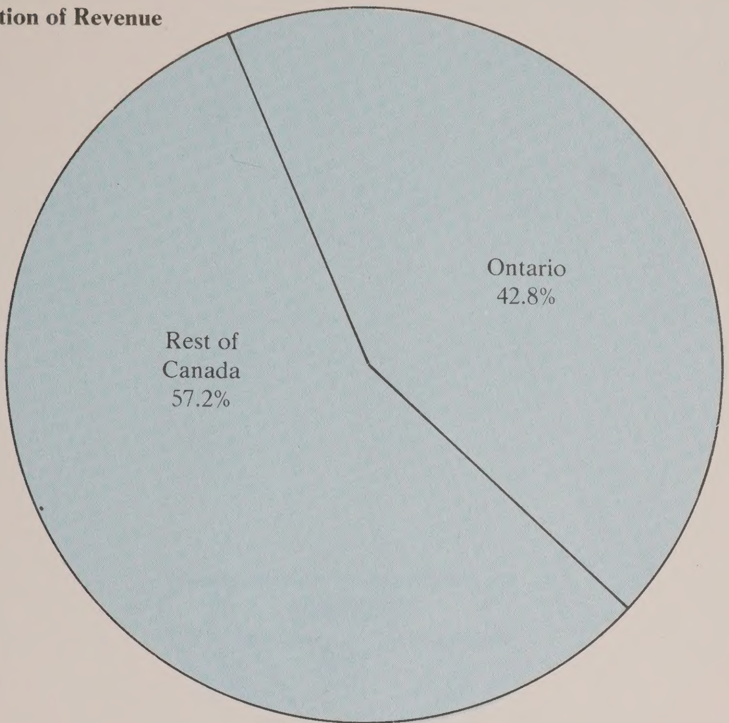


How it will be spent ...



THE FEDERAL TAX DOLLAR IN ONTARIO AND THE REST OF CANADA 1980

Proportion of Revenue



Proportion of Expenditure